★ HAS MARKET SEEN TOP? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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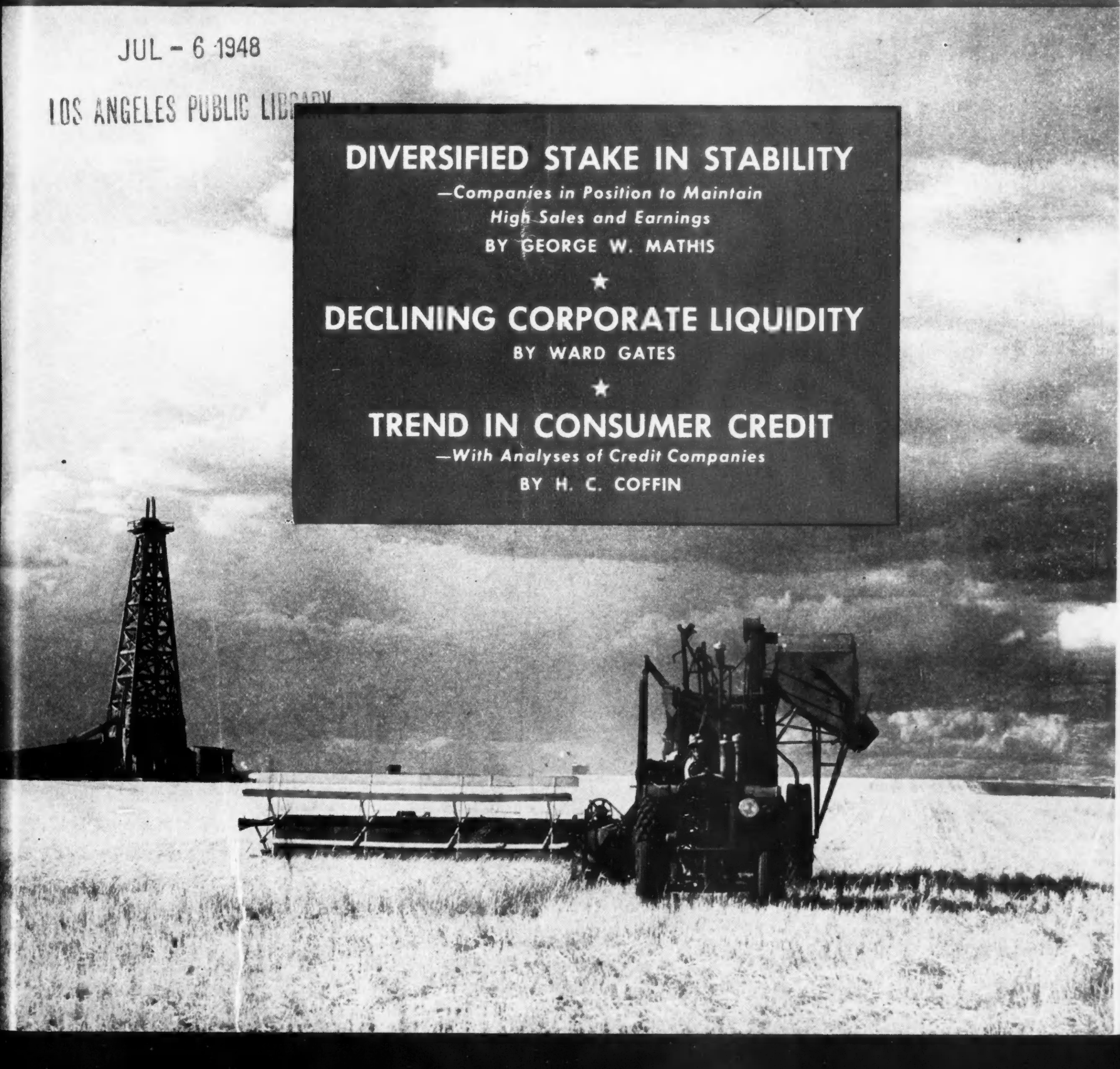

DIVERSIFIED STAKE IN STABILITY
—Companies in Position to Maintain High Sales and Earnings
BY GEORGE W. MATHIS

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DECLINING CORPORATE LIQUIDITY
BY WARD GATES

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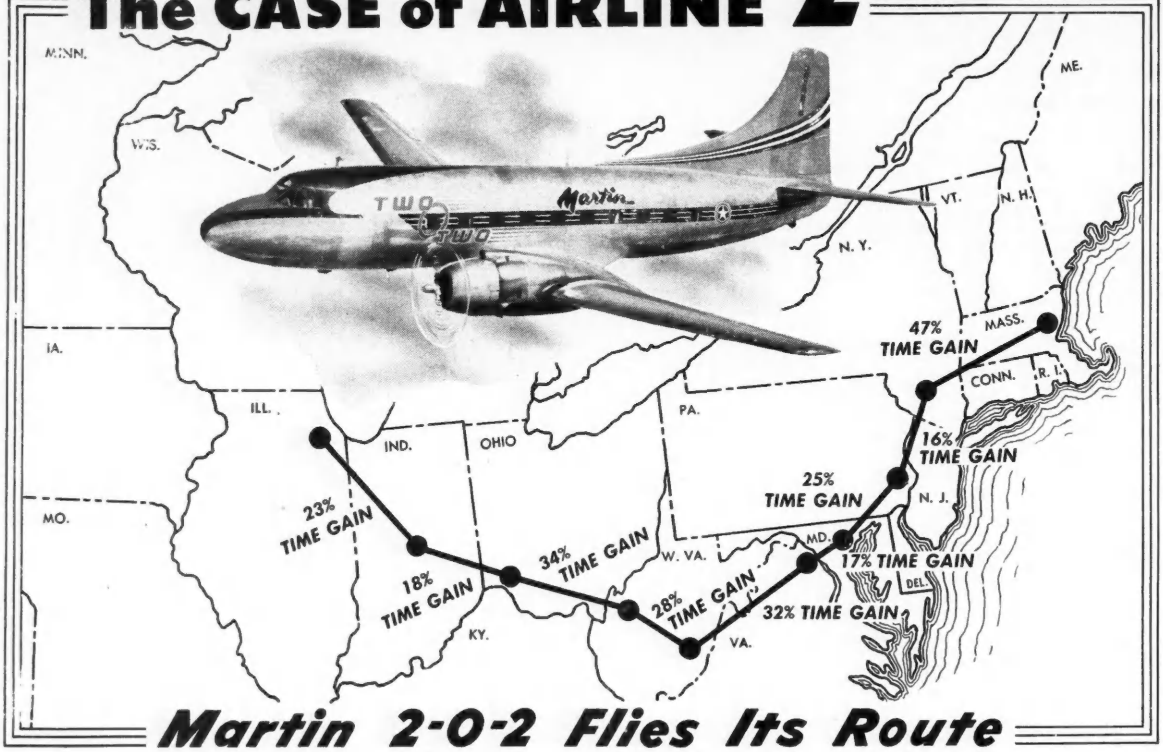
TREND IN CONSUMER CREDIT
—With Analyses of Credit Companies
BY H. C. COFFIN

The CASE of AIRLINE Z



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Washington, D. C. to Elkins, West Va.	50 min.	74 min.
Elkins, West Va. to Parkersburg, West Va.	31 min.	43 min.
Parkersburg, West Va., to Cincinnati	51 min.	77 min.
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PHOTO BY WIDE WORLD

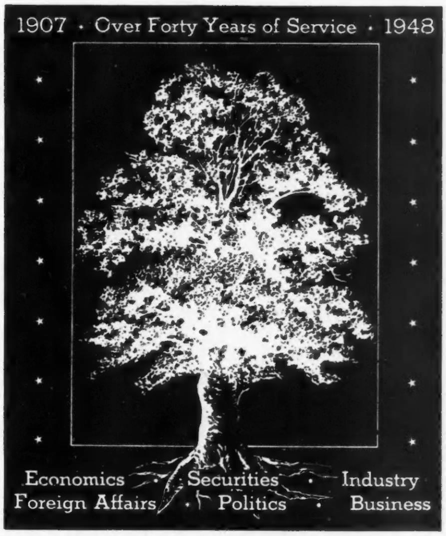
Gov. Thomas E. Dewey, the Republican nominee for President of the United States, possesses the qualifications of mind, stamina and virility so necessary in this great crisis. In a position of power he has demonstrated the capacity for objective thinking, a high sense of organization and the ability to arrive at balanced conclusions.

However, we do not yet know his soul—for his personality and even his speaking voice do not tell us of the inner man.

If elected, Mr. Dewey will have reached the pinnacle of his ambition and have every opportunity for the exercise of his powers. He will, we believe, handle the nation's affairs with courage and skill—his selection of Governor Warren as his running mate confirms this—and if he adds to this the wisdom born from his determination to go down in history as a great leader, we shall be assured of an Administration characterized by competency, teamwork and intelligent understanding of today's problems.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

A POOR COMPROMISE . . . The one-year extension of the Trade Agreement Act is a poor compromise between the requested three-year extension and no extension at all, but it is probably the best that could be expected in an election year. It gave Congress the chance of putting the bill aside for a year, until the heat of the campaign is over and the future of the American Trade Agreement program can be discussed in a calmer and more realistic atmosphere.

The program's future now lies largely in the hands of the new Congress and the next Administration. Fortunately the extension bill does not jeopardize the continuation of a sound foreign trade policy in the interim. As Mr. Harriman recently pointed out, "now that our influence in world affairs has become decisive, we must in all our actions behave responsibly and with full consideration of the effects of what we do upon others." We cannot insist that we must be free to sell to the world, but that we need not buy freely. That would be the height of folly, particularly in view of our position as the world's greatest creditor nation.

Hence it would have been unfortunate indeed if the Act in its entension had been severely mutilated. As it is, the changes made were procedural rather than basic, despite initial efforts to take the tariff-making authority virtually out of the President's hands by giving Congress veto power over tariff agreements. It would have been difficult to go along with an extension containing such a clause. Had such an amendment carried the day, the road to a better balanced and freer international exchange of goods would have been blocked once more.

There need be full awareness of the fact that, if because of domestic political considerations, our present low tariff policy is modified, there is danger that other nations will have little faith that this country intends to participate effectively in bringing about a world of expanding prosperity. Our tariff policy cannot be isolated from other aspects of our foreign policy. "It is," to quote Mr. Sumner Welles, "an acid test of our intentions."

STOP GAP . . . For some time, both major political parties have been groping for a satisfactory solution of the basic farm problem. Both realized that a sensible solution would be difficult in an election year but also that it wouldn't do at all to enter the campaign without a farm program. The result was a stop-gap measure that most probably will never become effective as written.

While a long range farm program had been developed, it was found that considerable time and research will be required before it can be properly formulated. Thus Congress merely pushed through a bill extending the present price support program for eighteen months, leaving the major task of working out a new long range program to the next Congress.

It is well that this important task can be undertaken in a calmer atmosphere, free from electioneering and super-heated debate with an eye to the voters. While obviously the result of a "deal," it is of a type which one could tacitly approve so long as it assures the emergence of sound legislation later on. About this point, however, there are still some doubts.

Apparently part of the "compromise" consisted

of laying down a new long range price support program to become effective at the beginning of 1950. To the extent that the "deal" makes this politically mandatory, it is less encouraging, for it means in effect continuation of long range farm price support without guarantee that it will be accompanied by authority to limit farm acreages. Continued price guarantee without production controls will never constitute a "sensible" solution. Yet, apparently, there exist political commitments for the former, though not the latter. The former, that is price support, is naturally dear to the heart of the farmers; the latter, production or marketing controls, is a more controversial subject. Still we cannot have one without the other unless we want to court the danger of accumulation of unmanageable farm surpluses at tremendous expense to the taxpayer who incidentally is also the ultimate consumer. Why not include him in the deal? He, too, has a vote.

The Republican party is on record of favoring a policy that farm prices should be supported on a just basis. They cannot escape the responsibility of formulating such a program, one that is "just" not only to the farmer but also to the consumer.

A WISE MOVE . . . The United States, we just learn, has yielded ground on one of the major objections of European nations to terms of bilateral treaties they must sign to get aid under the Marshall Plan. This objection was directed at the provision related to possible currency devaluation by participating countries. Perhaps unfortunately phrased, the currency exchange clause was widely interpreted in Europe as giving the U. S. power to tell when and how any currency revision was to be made, and this was deeply resented as a distinct encroachment on "national sovereignty."

By rephrasing the clause, the U. S. has taken much of the sting out of it. Under the new terms, we can ask for consultation with other nations on their exchange rules, but it will be clearly stated that the European countries will be able to accept or reject any suggestions. Actually of course, we will retain considerable influence in these monetary matters, for we can always make our aid contingent on the adoption of constructive measures deemed necessary for success of the program.

Still and all, there is reason for hope that the new move will speed and facilitate European recovery by helping Europe to free herself from her bilateral strait jacket. To this end, freer convertibility of currencies is absolutely essential, but our suggestions to revise currency systems and thereby bring about freer convertibility have fallen on barren ground so far. Every nation hesitates to admit that her currency is weak, and they all obviously didn't like the idea of letting this country decide if and when currency devaluation should be seriously considered. Distaste for this may now have been at least partly removed by the latest step of rephrasing the currency clause. We still have to overcome reluctance to lower trade barriers.

Without the needed reforms in the field of currency and trade, there is danger that ERP may change from a recovery plan to a huge relief project; particularly without currency stabilization, European recovery is far from assured. European planning, it seems, has become hopelessly enmeshed in complications and it is time that something be done about it. Indicative of certain attitudes is the report that some European nations in negotiating draft treaties covering ERP aid are intent on seeking some loopholes for interrupting compliance with the treaties without losing aid. Ostensibly, the wish for inclusion of such an escape clause is based on concern that Congress at some future date may greatly reduce ERP appropriations. But doubtless it has also in mind the contingency of interrupted compliance with the ERP treaties for reasons other than that. Europe, it seems, is taking ERP success far from granted; and one might add that dollars alone cannot solve all the problems. Full cooperation is at least equally important.

LEGISLATIVE JOKER . . . The Administration, we understand, finds itself almost blushingly and uncomfortably at the receiving end of two wholly unexpected gifts, and from a Republican Congress, too. It is now attempting to decide what to do with them.

One of the gifts is unlimited power for the President to allocate steel output to holders of military contracts, in other words full authority to control the peacetime end-use of the nation's steel production. The other is the "draft industry" rider, almost stealthily tacked on to the Selective Service Act and giving the President the right to take possession of any plant which refuses to accept or give preference to an order of the armed forces for any material deemed in the interest of national security.

Reports have it that while the Administration is stunned by this sudden legislative largesse of a tight-fisted Congress, it will probably use the power to allocate steel. So far no plans in this respect had been formulated, since no one expected Congress to give the President any wartime control powers.

It has been suggested that the sudden decision to do so may have been inspired by the thought that by granting steel allocations, further demands for compulsory allocation controls could be forestalled. Or else, behind it, was the desire for political appeasement of small business and to minimize Democratic campaign talk about Republican failure to enact adequate defense measures. Whatever the reason, it is questionable whether the move was a smart one.

All too readily, the return of mandatory steel allocations can be used as a precedent for additional controls. And steel controls alone have a way of affecting industry in an ever-widening circle. Little wonder that steel consuming industries are now worried over their steel supply. With war-time experiences fresh in their minds, they feel uncomfortable. They also know that once mandatory controls are back, they will be hard to rescind. And a sudden flood of priorities could play havoc with production schedules. Industry at any rate was taken by surprise and doesn't like it.

Nor is it enthused about the wide scope of the "draft industry" rider, pushed through in the last minute rush just before Congressional adjournment. The clause is applicable to any industry engaged in supplying the armed forces or the Atomic Energy Commission, and while its immediate significance may be limited, this could change a good deal as the defense program broadens.

As I See It!

BY CHARLES BENEDICT

WHERE DO WE GO FROM HERE?

In normal times, compromise can help to unite conflicting interests and smooth the way for the general good. That is not true, however, in crucial periods like the one through which we are passing. In times like these we cannot afford to give way and incur the risk of impairing the precarious equilibrium we are maintaining.

The situation in Europe has reached a crisis and the attitude and behaviour of the Russians leaves no doubt as to their intentions. They are not seeking compromise for the purpose of arriving at an adjustment—but are working to undermine and destroy any existing balance.

The struggle in Berlin is bound to be decisive and we can only break Russian determination by standing fast and making it clear in no uncertain terms that we will take whatever measures the situation calls for to prevent the Kremlin from pushing us out of Berlin—and eventually off the continent.

The problems facing the various members of the western bloc make it imperative for us to hold Russia in check during this trying period. The disunity between France and Britain persists, despite the underlying need for sincere collaboration. Indeed, it has recently been intensified due to the British policy in Palestine and to the war scare on the continent, which has been obscured in our press by the pyrotechnics of election ballyhoo in our country.

In France, the government is torn between its fears of a Germany rehabilitated by the western powers, and of a war between the United States and Russia—in which France once more would be a major battlefield with Russia on the spot and the United States 3,000 miles away.

As far as Britain is concerned, the unbalance between the dollar and the pound has created havoc with our relations — an unfortunate development since the internal political situation is in conflict with the international aspects of maintaining the pound sterling in world markets. Despite the greatly increasing exports, British austerity as a whole continues without abatement because of the loss of revenue from insurance, shipping and foreign investments which was an important source of British income before the war. The migration of large numbers of Englishmen to the colonies and elsewhere testifies to the lack of confidence in the minds of the people regarding the future. In fact, this uncertainty is spreading to other parts of the British Commonwealth and is responsible for the deflection of South Africa in the recent elections.

"HOW TO CLOSE THE GAP?"

Fitzpatrick in the St. Louis Post-Dispatch

In Scandinavia, too, there is great fear regarding our stability of purpose — and with good reason — because these states are vulnerable to attack by Russia and are already chastened as a result of the economic warfare against them.

The same is true of the Benelux states who can survive only if the United States is realistic enough to make a strong stand against further Russian encroachment.

The unrealities of a presidential year have not helped the situation any, and we hope the nomination of Gov. Dewey and Gov. Warren will minimize the unfavorable Russian "convention propaganda" which caused much shrugging of shoulders and lifting of eyebrows among those people of Europe who have been looking for us to champion their cause against Soviet Russia.

It is too bad that at this critical time we should have to experience another one of these political conventions, and give Europe a distorted view of domestic power politics.

At the same time, statesmen abroad, recognizing the strength of the Republican candidates, will begin to worry about agreements already made with the present regime and hesitate to make new ones, so that the period between now and election is bound to be a very critical one indeed as far as our foreign policy is concerned—one we can be sure Russia will exploit to the full.

It is clear that we must hold the respect and confidence of the European (*Please turn to page* 361)

Has Market Seen Top?

With the Republican convention out of the way and the threat of a coal strike ended, the continuing sluggishness of the market, after a six-week pause is not encouraging and may portend a reaction. We do not take a bearish longer-term view, but believe that some precautionary profit-taking, raising reserves to about 50% for the time being, is called for under currently prevailing uncertainties.

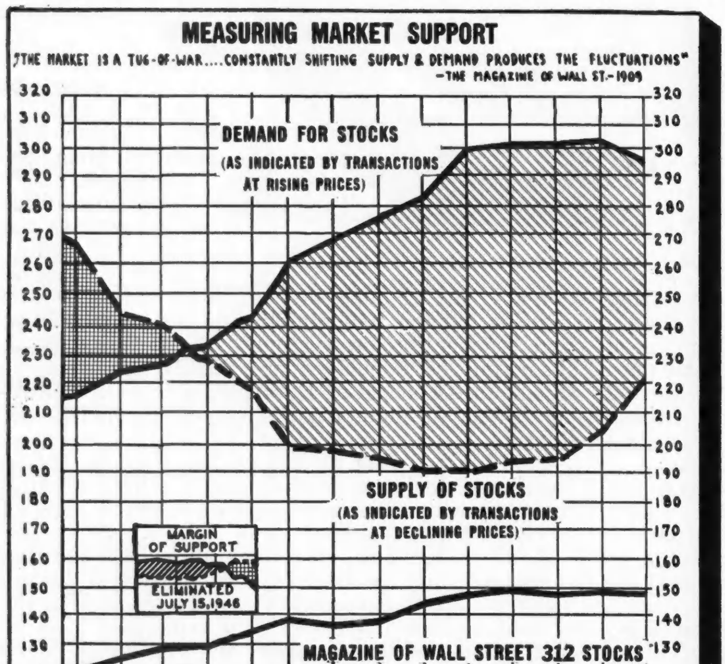
By A. T. MILLER

The hardest thing for most people to do is to look at the stock market objectively. If they have bought in expectation of a rise, they naturally hope to see it come through; and hope then colors their vision. The analyst who has publicly said that the probabilities appear to favor further advance gets a vested interest in seeing his opinion upheld, and is therefore reluctant to change it. He will rationalize dubious market action and stick to his position, whereas to one looking at the market with an open mind the same action will suggest that increased investment and speculative caution is called for at least temporarily.

Wishful thinking makes no money in the stock market, nor anywhere else. Knowing that, we try our best in these analyses to look at the facts as they change from day to day and week to week, without too much concern over what we thought at some previous time. The stock market is not a one-way street, and where it is headed is always a good deal less than a mathematical certainty. Therefore, the opinions of those who rate consistency above objectivity are not worth much.

The Technical Indications Are Dubious

With the above preamble, let us say at once that we are not favorably impressed with recent market action. True, it is not positively bad. There is a chance that it might prove to be only a pause in a sustained bull market, to be followed by renewed general rise without an intervening reaction of importance. And even if a reaction of some proportions is in the making, the case for higher prices somewhere in the months ahead will still not have been disproved. Be that as it may, today's facts have to be given more weight in one's thinking than tomorrow's possibilities.

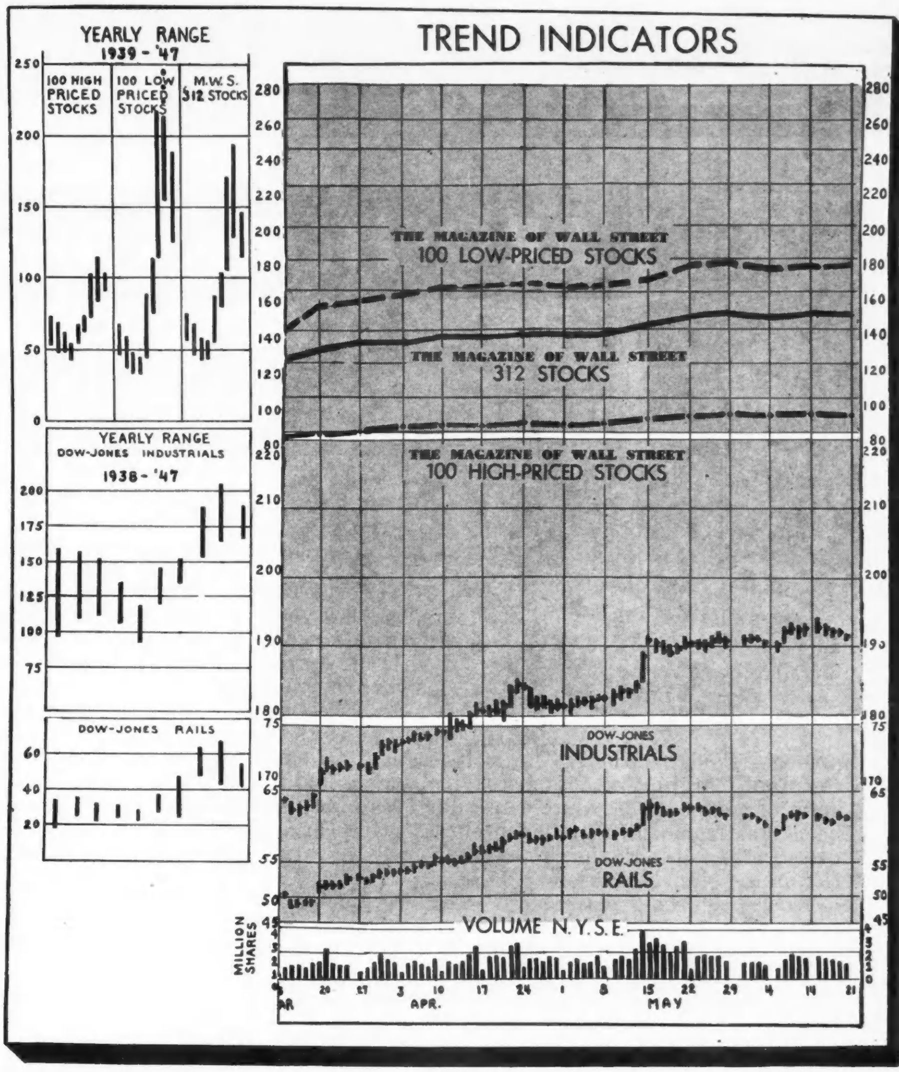


Since the Dow-Jones industrial average broke out on the upside, in mid-May, from its previous long trading range, establishing the widely held concept of a bull market, the list has gone nowhere to speak of. As we write, the market for all practical purposes is where it was six weeks ago, although within the second half of June the industrial, rail and utility averages did fractionally better the May highs before dipping downward again under profit taking.

Of course, this action can be rationalized. The argument of bullish analysts is: (1) The resting phase is technically justified as a consolidation of the 27-point March-May rise in the industrial average; (2) it should provide adequate correction in itself, serving as substitute for a reaction; (3) it has been prolonged by uncertainties centering in the Republican convention and the threatened coal strike. Then it is argued that the advance should be resumed in fairly short order, either with no intervening setback or only one of very minor proportions at worst, on the basis of good business prospects, high earnings and dividends, probable Republican victory in the election, seasonally favorable market tendencies within the summer

period and traditional market action in most Presidential election years. To all of this it is added that in sustained bull markets, under SEC and Reserve Board regulations, the purely technical reactions tend to be infrequent and small, due to restrictions on professional operations and to the absence of any large margin position.

But some of these points which are most immediately pertinent can be disposed of or questioned. Thus, the outcome of the Republican convention was known by the middle of last week; and the threat of a coal strike was eliminated shortly thereafter by a wage settlement which is again a victory for Lewis and which will again have inflationary consequences. Instead of responding favorably, the market sold off a little. The action on the ending of these two uncertainties merely emphasized the "tiredness" of the market.



As for the infrequency and limited scope of modern bull-market reactions, the answer is that this was true of the 1942-1946 bull market and of the 1935-1937 portion of the 1932-1937 bull market; but the question is whether this is a similarly sustained rise. Anyway you figure it, as noted here before, it is without precedent. Never before has a new bull market started at a boom level of business, earnings and dividends. If you regard the 1946-1947 bear market as an accident, more in the nature of a very deep and long reaction than a true bear market—since the business slump which it anticipated has not materialized—and if you consider that a major rise now woud really be a resumption of the 1942-1946 trend, this sequence is also unprecedented. All that can be said with assurance is that, in more than the usual degree, we are in uncharted market seas.

Good Business Discounted?

As for good business, and high earnings and dividends—this is a familiar story. We have had all of this for many months, without a dynamic market response; and that fact necessarily poses a question whether more of the same ammunition can do what it has heretofore failed to do.

The rise from the March low has amounted to only about 16% in the Dow industrial average. It is to be doubted that this is enough to call for a setback of much consequence, especially after a six-week pause, on technical grounds alone. In other words, if there is vulnerability in the present position it may be more than technical. It could be that the trouble is a deficiency of long term investment confidence, expressing itself in unwillingness to reach very far for stocks.

After all, the "bull signal" rise through the July, 1947 high, has to date bettered that point by a maximum of only some 3.4% in the Dow industrial average; and by only a fraction of 1% in terms of this publication's broad weekly index. Perhaps this is a bull-market pattern, but the supporting evidence has not been getting stronger. In fact, so far as actual market indications go, the question is raised whether this might not still be merely a trading-range affair, with the range only widened a bit on the upper level.

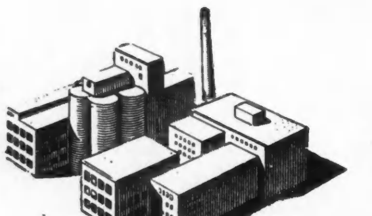
If there were strong investment confidence in the future, an eight-week rise of 16% in the industrial average would hardly call for a six-week pause. As to why there is a deficiency of confidence, it may be futile to speculate. One obvious reason is the now perennial question: "What will Russia do next?" Another reason may be that investors do not take the continuing inflationary tendencies as basically bullish, because they (*Please turn to page* 364)

The Latest Trends in....

PROFIT MARGINS

—A PRACTICAL CLUE TO FUTURE MARKET VALUES

By E. A. KRAUSS



Corporate profits last year were the largest in history and this year they bid fair to establish new records if present trends continue. The latter cannot be said for profit margins; yet it is gratifying to note that in spite of rising costs, American industry so far has been making about as much profit as last year on every sales dollar, though there is considerable variation in individual experience.

There has been a good deal of talk about shrinking profit margins, and doubtless many companies are being squeezed by mounting operating costs, higher wages and greater competition. But it would seem that increased operating efficiency, enlarged production and higher prices have effectively countered the margin squeeze in many cases with the result that the general profit experience appears to dispute the widespread belief that profit margins are narrowing on a broad front.

Need For Adequate Profit Margins

Considering present high break-even points, maintenance of adequate net profit margins is an important factor. For while present-day profit margins frequently look big, the question is how they will stand up in the face of declining sales, a forced reduction in selling prices or any further rise in costs not compensated for by higher prices. Any one of these factors, or all of them, may suddenly be encountered. Needless to say, where margins are slim, profits will then vanish fast. Where margins are adequate, they are far more apt to cushion such adverse impacts without throwing a company into the red. These considerations are made more pertinent by the wide variations in profit margins often displayed by different concerns in the same field.

To obtain a picture of the latest trend in profit margins, we have prepared a sizable statistical sample covering some 85 companies in major industries. On the whole, the picture shown is encouraging, especially if one considers that the factor of inventory profits, so prominent in many lines last year, was of considerably less significance during the first quarter of 1948.

By and large, net profit margins, that is the ratio of net profits to sales, have been fairly well maintained during the first quarter, though there are naturally numerous exceptions where both improvement and impairment is shown. Against a background of rising sales, however, even stationary margins imply a certain squeeze on profits, since higher volume usually means more economic operations, thus should be productive of higher net margins. This is a factor that should not be ignored when examining the ratios listed in our tabulation.

On the other hand of course, a narrower profit margin on the larger sales volume can produce the same or even a higher net profit in terms of dollars earned. Thus where a margin decline is indicated, it does not necessarily mean that overall net earnings have been dropping. Just the opposite could have been true. It is because of the importance of the volume factor that net earnings sometimes fail to tell the whole story of a company's operations and results; to properly appraise the latter, profit margins constitute important and useful statistical tools, though they must not be used indiscriminately. Often enough, special factors play their part in determining profits and profit margins and where such is the case, they must be duly considered.

Specific Examples

Take for instance, the automobile companies listed in our table. We find that while General Motors during the first quarter had a net margin of 8.86, the net margin of Chrysler was exactly half that figure. The reason was that Chrysler, having lost some weeks of production during the early part of the year, could not nearly match the production progress made by its competitor who turned out about 20% more units than during the first quarter of 1947. Thus GM's net margin rose from 7.55 to 8.86 while Chrysler's declined from 6.78 to 4.43. Studebaker managed to widen its ratio because of an almost 50% sales increase, but even so, its margin was not much better than Chrysler's and far below that of General Motors.

By way of contrast, note the high profit margins

shown by Mullins Mfg. and the certainly satisfactory net margins of Borg-Warner, with both companies showing improvement over the first quarter 1947 and the full year 1947. In either case there was substantial sales progress; yet Mullins Mfg. on last years' lower sales managed to earn 12.64 cents on its sales dollar, an excellent showing in a competitive field. Generally, in the automotive group, there has been an improvement in the net profit margin both compared with the first quarter 1947 and full year 1947. In our sample, only Chrysler and Diamond Motor backtracked.

The Building Group

The building materials group, on the other hand, shows a generally narrowing trend despite uniformly advancing sales, which certainly reflects a profit squeeze because of higher costs. Yet margins on the whole remained quite satisfactory. American Radiator is the only company showing margin improvement during the first quarter though not quite matching the figure for the full year 1947. Lone Star Cement in the face of a modest sales increase reveals the sharpest margin shrinkage, to 9.52 from 12.47 in the first quarter last year. The ratio of Certain-teed Products declined somewhat but at 12.12 was still the highest in the group, indicative of the excellent earnings of this company.

Profit margins of chemical manufacturers are traditionally high, but some of them lost ground during the first quarter. The experience of the leaders in the field varied. While the ratio of duPont declined from 16.24 last year to 13.58 despite substantially higher sales, that of Union Carbide advanced from 15.18 to 15.33. Obviously duPont, unable to increase prices to offset rising costs, "took it on the chin" profitwise, at least for a while. The company recently announced several price increases which may offset the trend toward narrower margins. A substantial margin shrinkage occurred in the case of Atlas Powder, from 5.26 to 2.65, and Monsanto Chemical, from 13.65 to 9.89. The former was the only chemical company in our list that did not increase sales, which in fact showed a slight decline. Monsanto showed a modest sales increase but not enough apparently to maintain the profit margin. By way of contrast, Heyden Chemical managed to lift its margin from 12.94 to 16.43, reflecting the company's excellent earnings rate.

Coal Companies

Feature among the coal companies is the virtual doubling of the profit margin of Pond Creek Pocahontas, from 9.41 in the first quarter last year to 18.01 in the first quarter 1948. This far outshines the ratios of the other companies listed. Pond Creek of course owns exceptionally rich coal deposits and has made great strides in mechanization, holding down operating costs. The improvement occurred despite the coal strike last spring which affected operations during the latter part of March.

Profit margins of the distillers, while showing a mixed trend, appear to have completed their earlier downtrend and are showing signs of recovery. The margin decline in the case of National Distillers reflects a fairly sharp drop in sales. Schenley on the other hand, despite lower sales managed to improve its margin.

Among the highest profit margins are those of the drug companies. Of those listed in the table, Abbott Laboratories and Parke Davis did quite well during

Net Profit Margins of Selected Companies in Major Industries

	1948 1st Quar.	1947 Full Year	1947 1st Quar.
Autos & Equipment			
Borg-Warner	8.77%	7.75%	7.88%
Mullins Mfg.	13.31	12.72	12.64
Studebaker	4.64	3.32	2.65
Chrysler	4.43	4.93	6.78
Diamond Motor	3.68	4.56	4.80
General Motors	8.86	.7.56	7.55
Stewart-Warner	5.20	3.16	3.61
Building Materials			
Flintkote	8.90	10.60	11.19
Johns-Manville	6.15	7.10	7.56
American Rad. & S.S.	9.51	9.70	8.38
National Gypsum	9.89	10.20	11.31
Pittsburgh Plate Glass	9.99	10.60	10.75
Certain-teed Products	12.12	12.61	12.62
Lone Star Cement	9.52	13.50	12.47
Chemicals			
Hercules Powder	8.75	9.89	11.30
Union Carbide & Carbon	15.33	14.50	15.18
Atlas Powder	2.65	4.90	5.26
Heyden Chemical	16.43	12.34	12.94
Du Pont	13.58	15.30	16.24
Air Reduction	6.20	6.78	7.19
Monsanto Chemical	9.89	10.82	13.65
Coal Companies			
Lehigh Valley Coal	3.30	3.15	4.06
Pittsburgh Cons. Coal	6.01	7.20	5.48
Pond Creek Pocahontas	18.01	15.30	9.41
Distillers			
National Distillers	7.49	9.20	10.66
Schenley Distillers	6.97	4.92	4.48
Hiram Walker—G. & W.	8.71	7.41	7.08
Distillers Corp.—Seagrams	8.85	6.94	9.93
Drug Companies			
Abbott Laboratories	21.00	17.10	19.54
Sterling Drug	11.00	9.22	11.60
Parke Davis	18.40	14.32	14.20
Electrical Equipment			
General Electric	6.94	7.48	6.87
Radio Corp. of Amer.	6.54	5.92	6.11
Westinghouse Eletcric	6.26	6.90	7.89
Sylvania Electric	4.73	2.62	3.42
Food Products			
Continental Baking	2.99	3.68	3.67
National Biscuit	6.56	6.20	10.07
Standard Brands	4.00	2.96	4.51
General Foods	6.79	4.50	6.67
Machinery & Tools			
Outboard Mar. & Mfg.	5.41	8.95	7.74
U. S. Hoffman Machy.	2.38	4.04	4.99
American Machine & Met.	4.58	3.92	4.28
National Supply	3.65	6.45	6.00
Black & Decker	10.67	10.20	8.21
Mining & Metals			
International Nickel	22.81	21.80	19.89
Anaconda Copper	11.80	11.40	12.85
Calumet & Hecla	1.68	7.82	13.85
American Zinc, Lead	1.42	2.87	3.90
Office Machinery			
Burroughs	7.20	9.79	12.60
International Bus. Mach.	15.90	16.30	17.50
National Cash Register	8.29	7.80	8.30
Petroleum			
Atlantic Refining	7.64	4.96	3.87
Phillips Petroleum	18.04	13.66	10.06
Standard Oil of Calif.	21.59	20.20	17.24
Standard Oil of Ohio	9.87	8.25	5.82
Tide Water Ass. Oil	11.78	10.00	7.81
Skelly Oil	21.90	17.40	12.63
Socony Vacuum	10.27	9.50	8.54
Texas Co.	11.97	13.25	12.14
Pulp & Paper			
Container Corp.	6.20	8.25	10.43
Kimberly Clark	6.95	7.88	9.27
Union Bag & Paper	18.84	18.45	18.70
Scott Paper	4.35	5.00	4.76
St. Regis Paper	11.12	10.20	11.23
International Paper	11.61	13.20	12.10

the first quarter, the latter exceptionally so. Sterling Drug's margin narrowed slightly but still held well above that of the full year 1947. All should continue to report excellent earnings.

There was little change among electrical equipment manufacturers. Margins in this field are traditionally narrow, it being quite competitive, but first quarter profit ratios held up fairly well. A narrowing of the profit factor is indicated by the fact that the very substantial sales gains of such concerns as Westinghouse and General Electric did not produce markedly wider profit margins; it took considerable volume to maintain them close to previous levels and the Westinghouse margin even declined.

Lower Profit Margins In Food Industry

A distinct shrinking of margins is also apparent in the food products group despite moderately higher sales. The cost squeeze has been quite pronounced in this field, and so has been the drop in net margins particularly for such concerns as National Biscuit and Continental Baking. Countering the group trend was General Foods, however, whose net margin managed a small increase against the first quarter of 1947, and considerable improvement compared with full year 1947. This showing was largely attributable to a very sizable gain in sales, far more impressive than that of any of the other companies. But with conditions being what they are, food products manufacturers see little prospect of improvement during the balance of the year.

Another group displaying sharply varying results is Mining and Metals. Here we see International Nickel with a margin gain to 22.81 from 19.89, and Anaconda Copper showing a slight drop to 11.80 from 12.85. On the other hand, Calumet & Hecla's net profit margin plummeted to 1.68 in the first quarter 1948 from 13.85 in the same quarter last year and from 7.82 for the full year 1947. Two factors were responsible for this poor showing: sharply rising production costs in the company's high cost mines and temporary production curtailment of the company's tube division because of the gas shortage early in the year. The latter is now a thing of the past and high

Net Profit Margins of Selected Companies in Major Industries

	1948 1st Quar.	1947 Full Year	1947 1st Quar.
Railway Equipment			
American Brake & Shoe	3.42	4.22	5.45
Budd Co.	5.16	2.11	4.08
Pullman	1.74	3.21	5.46
New York Air Brake	9.36	9.15	7.61
Retailing			
Green, H. L.	4.13	6.05	4.63
Alden's	1.54	1.34	1.59
Montgomery Ward	12.40	5.10	11.52
Federated Dept. Stores	4.10	3.41	3.86
People's Drug Stores	2.74	4.80	4.66
Steel			
Inland Steel	9.32	7.18	11.38
Bethlehem Steel	5.24	4.95	6.77
Republic Steel	4.75	4.82	7.88
Jones & Laughlin	5.28	6.38	8.10
U. S. Steel	6.11	6.00	8.26
Textiles			
American Woolen	10.00	8.68	10.60
American Viscose	12.61	9.25	8.82
Celanese Corp.	16.99	13.38	13.80
Belding Heminway	7.29	8.27	5.03
Colonial Mills	21.43	20.50	19.48
Van Raalte	7.39	9.20	8.94

mining costs are being fought by installation of new and up-to-date equipment. Thus in all probability, this unusually severe shrinkage of the company's profit margin may be followed by gradual improvement.

Already low last year, the net margins of machinery and tool manufacturers continued their downtrend this year, with Black & Decker a notable exception. Contrary to some expectations, textile concerns did quite well, either maintaining or gaining on their already high margins of last year. Retail trade showed mixed trends. Fairly low margins are typical of the retail business as evidenced by the fact that the average sales-profit ratio in the first quarter of 228 department and specialty stores, according to the National Retail Dry Goods Association, was only 3.8% as against 4.2% a year ago. Montgomery Ward in this group is an outstanding exception; during the first quarter it managed to raise its profit on the sales dollar to 12.40 cents compared with 11.52 cents a year ago.

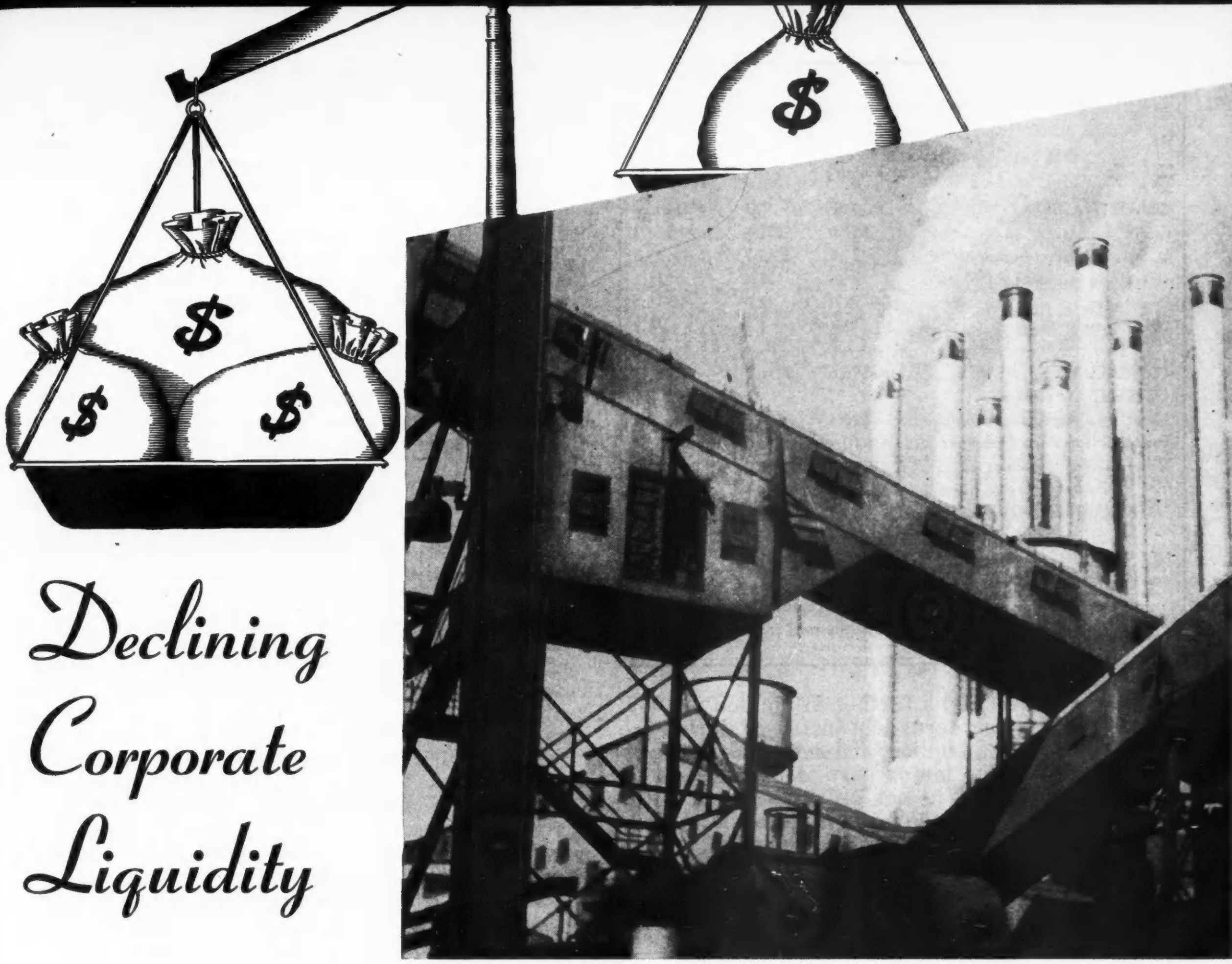
Steel companies during the first quarter made less money though their sales were appreciably higher. All the companies listed in our table showing shrinking profit margins, reflecting the impact of higher costs and also the effects of severe winter weather on operations during the early part of the quarter.

Expanding volume and higher prices combined to make for an impressive showing of the oil industry. With few exceptions, net margins in this group were quite large, ranging as high as 21.59 for Standard Oil of California and 21.90 for Skelly Oil. All companies showed material and often sharp improvement over 1947. With volume continuing exceptionally high and with another boost in crude oil prices possible, net margins may rise further, portending new earnings peaks for the oil industry.

The paper group, large earner in terms of dollar net and with volume holding at postwar record levels, is undergoing a moderate profit squeeze as reflected by narrowing net margins during the first quarter. Only exception among those listed in our table is Union Bag & Paper whose net margin of 18.84 for the first quarter compares with last year's 18.70. Relatively small declines occurred with International Paper, Scott Paper and St. Regis Paper, and a sharper drop in the case of Container Corporation. While demand and supply in the paper field is now close to, if not at a balance, satisfactory profits appear assured for most companies in the field in view of well sustained heavy demand for most paper products. Competitive trends may perhaps be felt most in certain container lines, despite excellent volume potentials for containers as such as long as overall economic activity holds at current high levels.

No Drop From Current Levels Expected

There is good reason to assume that for the balance of this year, profit margins in most lines may hold around current levels. We have already indicated where further improvement or deterioration may be expected; by and large, existing ratios should be maintained and may even be bettered, particularly in view of the new wave of price increases which in many cases will minimize existing or expected cost squeezes. Yet the future trend of profit margins is worth watching, for it reflects not only profitability of operations but also the varying degree of efficiency between individual companies in the same field, hence constitutes an important consideration in the selection of stocks for investment.



Declining Corporate Liquidity

By WARD GATES

The widespread attention and approval that continue to be given by investors to the high level of earnings tend to obscure the considerable decline in corporate liquidity that has been taking place ever since the war. This is the result of the heavy drain upon cash for financing plant and equipment repairs, modernization, and expansion, as well as for carrying the larger inventories and receivables called for by the record volume of business and the price inflation.

Comparison of the balance sheets of leading corporations as of December 1947, or March 1948 where available, with those of December 1945 shows up the strong and weak positions of individual organizations as they enter the crucial period of returning competition and narrower profit margins. It becomes increasingly important at this phase of the business cycle to consider not only the changes in amount of the principal assets and liabilities, but also the changes in character of such items.

As background for measuring the shifts among individual companies since the war, a compilation recently issued by the Securities & Exchange Commission on working capital of all U. S. corporations as of December 1947 affords a good indication of general trends and warrants a few generalizations. These overall totals, summarized below with comparative figures for 1945, do not, of course, reveal the highly uneven changes in the different major industries, and are subject to the usual exceptions to which we shall refer later.

The Composite Picture

This composite statement suggests, in the first place, the fallacy of relying upon superficial rule-of-thumb measures rather than upon a searching analysis. By the orthodox test of net working capital (total current assets less total current liabilities), this statement shows a gratifying increase, amounting to $10 billion. And by the test of current ratio (total current assets divided by total current liabilities), the statement stands slightly better han the traditional "2-to-1" and shows no appreciable change in the two-year period.

If, however, a more qualitative ratio is computed, such as cash and government securities to total current liabilities, it will be seen that since the war the liquidity measured thereby has declined from 95% to 67%.

Principal changes during the period were an absorption of $15 billion for increased inventories, and $11 billion for receivables. Cash was increased slightly, but at the cost of liquidating government securities and increasing current liabilities—chiefly notes and accounts payable.

When presenting this tabulation of working capital, the S.E.C. gave supplementary information indicating that net property account increased about

Current Assets and Liabilities of All U. S. Corporations

(Billions of dollars)

CURRENT ASSETS	1945	1947	Change
Cash	$21.6	$22.9	+$ 1.3
U. S. Government Securities	21.0	13.7	— 7.3
Notes and Accounts Receivable	24.6	35.7	+ 11.1
Inventories	27.0	42.0	+ 15.0
Other Current Assets	2.4	1.6	— .8
TOTAL CURRENT ASSETS	$96.6	$116.0	+$20.6
CURRENT LIABILITIES			
Notes and Accounts Payable	$25.4	$34.2	+$ 8.8
Federal Income Tax Liabilities	10.4	10.0	— .4
Other Current Liabilities	9.0	10.0	+ 1.0
TOTAL CURRENT LIABILITIES	$44.8	$54.2	+$ 9.4
NET WORKING CAPITAL	$51.8	$61.8	+$10.0

Note: Excludes banks and insurance companies. Figures are rounded and will not necessarily add to totals.

$5 billion in 1946, and a further $10 billion in 1947. Bank loans and long-term debt increased during the two years by over $6 billion, and new stock issues by over $2 billion. The major part of the increase in working capital and in net property account was financed, however, by the large retained net income after dividends, which amounted to $6 billion in 1946 and rose to a record $9 billion in 1947.

In order to trace the widely divergent trends since the war in the principal balance sheet items of well-known individual companies, the comprehensive tabulation on the following page has been prepared from the latest available statements. These figures will illustrate the changes both in amount and composition of working capital, as well as long-term debt, capital stock, net property account, and total assets.

What the Figures Show

The figures themselves tell quite a story, since they reflect the operating statement and the changes on both sides of the balance sheet. Taking the cash plus government securities, which are considered secondary cash reserve, there was a decline for the group of 30 companies of about $162 million since the war, which on total holdings is only about 10% and seems quite moderate. An examination of the changes by individual companies, however, reveals that 11 had actual increases, amounting to $220 million, but this was offset by 19 companies with decreases. The increases by some companies were not, of course, pooled and made available to the others.

Accompanying the decline by most companies in cash (and equivalent), there was frequently a substantial increase in long-term debt. Thus our sample shows increases by 18 companies of $904 million, and decreases by 50 companies of $70 million, leaving a net increase of $834 million. The other 7 companies have no long-term debt.

In a diversified sampling of companies such as this, the analyst is interested not only in the general trends, but in the minority that performed counter to those trends. Among the latter, four are outstanding. American Tobacco decreased its cash by $3 million, yet cut its long-term debt approximately $12 million, while International Paper decreased its cash and equivalent $15 million but cut its debt $46 million. Chrysler Corporation and Kennecott Copper, neither of which has any long-term debt, built up their cash by $41 million and $48 million respectively. All four companies increased their net working capital.

Three other companies in the group have been able to maintain their cash at around the end-of-war level without appreciable increase in their long-term debt, if any. These are du Pont, Macy, and Simmons. All three had, in common with business generally, substantial expenditures on plant and equipment (particularly du Pont), plus inventories and receivables, despite which their working capital was increased, due largely to retaining a large portion of their good earnings.

Other Factors

Each of the remaining companies had an unfavorable relationship between the changes in cash and in long-term debt. Too much significance should not, of course, be attached to the term "unfavorable," inasmuch as this is only one among many factors to be considered. It is not as if the cash had been dissipated. It has merely been put to work in fixed or current assets, where if wisely used it will add to earnings instead of lying in a bank deposit drawing no interest or being invested in low-yielding government securities.

Moreover, the net working capital position of these companies has not suffered, but in most cases has been substantially increased. Nevertheless, the diminution of cash and the resort to long-term borrowing are facts which should not be overlooked.

Some of the heaviest drains upon cash have been in the electrical equipment, radio, and appliance industries, where vast expenditures have been made since the war for modernization and expansion of manufacturing capacity. General Electric had a cash decrease of $86 million and a debt increase of $202 million. Westinghouse Electric maintained its cash, but borrowed $110 million. R.C.A. had a cash decrease of $4 million and a debt increase of $36 million. Allis Chalmers had a cash decrease of $35 million, against a debt cut of $10 million. Nevertheless, these companies, like those previously mentioned, all built up their net working capital.

Various Examples

A similar draft upon cash took place among the manufacturers of machinery and other types of heavy equipment. American Locomotive had a $32 million cash decrease and a $13 million debt increase. Fairbanks Morse and National Cash Register had little change in cash, but debt increases of $19 million and $30 million respectively. There were similar but less pronounced trends by American Brake Shoe, Timken Roller Bearing, and Worthington Pump. It should be recognized that in most of these industries the plant expenditures are now tapering off if not completed, so that the demands for cash of the past two years will not be regularly recurrent.

Moreover, there will be an increased flow of cash from the annual reserves for depreciation, which although charged against earnings do not involve any cash outlay and thus rep- (*Continued on page* 364)

Statistical Summary of Postwar Shifts in Corporate Assets, Debt and Capitalization

	$ Million							$ Million		
	Cash	Marketable Securities	Receivables	Inventories	Net Property	Working Capital	Current Ratio	Long Term Debt	Capital	Total Assets
Allis-Chalmers										
December 31, 1945...........	$29.7	$21.0	$12.7	$62.9	$28.7	$72.7	2.0	$25.5	$72.7	$179.8
March 31, 1948.................	16.0	......	29.2	120.4	45.8	109.3	2.9	15.0	108.6	213.7
American Brake Shoe										
December 31, 1945...........	3.9	6.6	6.2	10.5	15.4	23.4	5.0	......	22.7	47.9
March 31, 1948.................	5.9	.3	12.3	15.1	32.8	20.9	2.6	......	35.0	71.6
American Locomotive										
December 31, 1945...........	23.4	16.3	9.9	34.5	27.5	34.0	1.6	......	21.8	128.0
December 31, 1947...........	7.4	.1	13.7	35.5	30.5	39.7	3.3	13.5	21.8	92.2
American Tobacco										
December 31, 1945...........	22.5	......	26.3	302.5	18.7	314.8	5.3	183.1	171.2	483.5
December 31, 1947...........	19.5	......	35.1	483.1	32.8	366.7	3.1	170.6	182.4	646.7
American Woolen										
December 31 ,1945...........	23.9	5.1	11.6	37.7	22.8	55.1	3.2	.9	37.0	104.3
December 31, 1947...........	11.2	.1	18.1	58.5	27.6	59.5	3.0	.8	59.5	117.6
Bond Stores										
December 31, 1945...........	11.3	12.1	1.7	6.3	7.0	22.1	3.4	3.5	1.5	38.9
December 31, 1947...........	10.7	......	6.8	18.4	15.3	26.0	3.6	5.4	1.6	53.9
Borden Company										
December 31, 1945...........	30.1	27.8	17.3	31.4	65.2	78.8	3.8	12.9	60.8	179.7
December 31, 1947...........	42.0	5.4	25.6	48.9	89.3	89.5	3.8	33.6	62.3	221.8
Chrysler										
December 31, 1945...........	136.4	38.4	28.1	72.4	71.6	195.0	2.4	......	21.7	414.2
March 31, 1948.................	141.0	74.8	40.4	125.9	105.9	217.4	2.3	......	21.7	496.1
Du Pont										
December 31, 1945...........	196.2	12.5	47.7	90.9	225.3	284.8	5.5	......	391.3	921.6
December 31, 1947...........	150.5	51.6	68.0	142.5	361.6	326.4	4.8	......	491.3	1,438.1
Eastman Kodak										
December 29, 1945...........	22.4	92.4	39.0	59.1	83.2	133.9	2.7	......	130.0	306.6
December 27, 1947...........	37.5	32.8	39.1	91.0	144.1	120.7	2.5	......	130.0	359.8
Fairbanks Morse										
December 31, 1945...........	5.3	2.6	10.8	19.6	9.1	24.1	2.7	......	13.1	49.4
December 31, 1947...........	8.9	......	18.6	27.4	17.4	39.8	3.7	19.5	13.1	74.3
General Electric										
December 31, 1945...........	58.3	212.2	161.7	181.4	35.3	262.3	1.7	......	180.3	858.1
December 31, 1947...........	77.8	106.2	136.4	345.2	195.9	386.2	2.0	202.4	180.3	1,026.8
General Mills										
May 31, 1946....................	17.1	30.0	10.5	20.8	26.4	60.0	4.0	9.8	48.8	109.0
May 31, 1947....................	18.9	......	18.6	36.7	29.3	57.9	3.5	9.6	48.8	115.7
Goodrich, B. F.										
December 31, 1945...........	15.1	16.3	43.1	54.9	48.6	106.2	5.6	35.0	69.0	182.7
December 31, 1947...........	24.5	......	52.3	88.9	75.1	130.7	4.7	45.0	85.5	246.7
Gulf Oil										
December 31, 1945...........	46.3	6.2	38.2	73.6	446.7	91.4	2.3	59.3	226.9	652.8
December 31, 1947...........	83.9	.2	70.8	111.9	574.1	129.5	1.9	184.6	226.9	929.1
International Paper										
December 31, 1945...........	25.4	11.0	14.1	32.0	128.1	65.5	4.8	46.5	120.5	252.3
December 31, 1947...........	19.1	2.7	24.1	52.6	147.7	68.0	3.2	......	76.4	278.6
Kennecott Copper										
December 31, 1945...........	94.8	97.5	13.7	39.7	205.1	215.8	8.1	......	53.2	464.8
December 31, 1947...........	101.7	138.5	19.9	54.9	201.3	252.4	5.1	......	53.2	540.6
May Department Stores										
January 31, 1946.............	6.6	37.0	10.0	22.1	29.9	51.1	3.0	3.1	28.7	112.6
January 31, 1948.............	10.0	27.1	35.5	36.2	58.6	77.3	3.2	19.2	47.7	181.7
Macy, R. H.										
July 28, 1945....................	6.2	13.1	10.8	26.2	34.1	43.8	4.5	16.5	41.4	95.2
January 31, 1948.............	8.3	13.7	29.8	24.3	35.9	44.5	2.4	20.0	42.3	129.3
Monsanto Chemical										
December 31, 1945...........	15.9	2.9	10.6	14.4	30.5	36.7	6.1	......	32.7	79.5
March 31, 1948.................	17.6	10.0	19.8	29.2	93.7	60.9	4.8	30.0	55.2	224.8
Montgomery Ward										
January 31, 1946.............	13.1	85.8	48.6	137.6	39.6	240.6	6.4	......	167.1	333.2
January 31, 1948.............	18.5	32.6	144.1	277.3	40.2	366.6	4.5	......	231.4	530.0
National Cash Register										
December 31, 1945...........	7.5	4.1	9.7	11.0	12.1	23.6	3.5	......	24.4	53.3
December 31, 1947...........	12.1	......	28.2	28.4	24.1	42.5	2.6	30.0	24.4	109.5
Radio Corp. of America										
December 31, 1945...........	33.5	8.5	38.1	37.5	31.7	62.1	2.1	......	42.3	159.6
December 31, 1947...........	35.7	2.7	42.8	61.5	59.1	79.7	2.3	36.0	42.3	216.2
Schenley Distillers										
August 31, 1945...............	5.5	20.8	37.1	91.5	28.7	79.0	2.0	8.0	20.3	187.0
August 31, 1947...............	50.3	.1	47.4	165.9	50.0	222.4	6.3	125.0	6.3	318.3
Simmons										
December 31, 1945...........	9.8	2.7	5.2	11.0	12.7	21.1	4.5	7.5	6.1	40.7
December 31, 1947...........	9.8	3.4	11.8	20.9	18.3	33.3	3.6	9.0	13.7	65.5
Sterling Drug										
December 31, 1945...........	11.6	.8	14.4	26.1	12.6	33.8	2.7	......	31.2	85.1
December 31, 1947...........	7.3	.3	15.0	34.9	23.9	32.6	2.3	2.9	31.2	99.8
Timken Detroit Axle										
June 30, 1945....................	11.7	1.9	6.8	15.5	5.2	22.5	2.4	......	9.9	44.8
June 30, 1947....................	5.9	.1	5.7	25.6	9.1	22.8	2.5	......	10.7	50.1
Union Carbide & Carbon										
December 31, 1945...........	104.1	35.9	42.2	80.0	117.1	188.8	3.0	......	192.9	428.1
December 31, 1947...........	99.2	101.8	65.4	111.9	238.0	275.8	3.7	150.0	214.5	649.1
Westinghouse Electric										
December 31, 1945...........	69.7	42.7	51.9	128.2	77.6	245.4	3.6	20.0	197.7	449.9
December 31, 1947...........	112.7	.1	102.6	234.8	128.9	359.5	6.2	130.0	220.7	601.6
Worthington Pump & Machy.										
December 31, 1945...........	5.1	7.9	13.9	16.8	7.8	23.3	2.1	......	16.9	52.5
December 31, 1947...........	5.5	......	15.4	32.3	13.5	37.5	3.2	13.0	17.2	69.4

Outlook for INTEREST RATES

By PHILLIP DOBBS

When the Treasury in July last year decided to "unpeg" the interest rates on its short term securities, this was widely regarded as the beginning of a gradual uptrend in the interest rate structure, a fundamental shift marking the first rise after a twelve-year downtrend.

Following this original decision, the rate for Treasury bills rose quickly from 3/8% and is now close to a 1% basis. One-year certificate rates, formerly pegged at 7/8%, by January this year had gone to 1 1/8% with every indication that a still higher rate might be established later. Repercussions in the money market were prompt. Interest rates all around began to firm up; and high grade corporate bonds and preferred stocks began to decline, raising yields and ending the long-standing bull market in these types of securities. Lending rates of banks stiffened as demand for bank credit remained heavy.

The basic purpose behind last year's Treasury move was anti-inflationary. The immediate objective was to get the yield rate for short term governments closer to that for long term issues with the idea of inducing banks to hold on to their short term securities instead of selling them to the Federal Reserve System and using the proceeds either for the purchase of higher yielding long term bonds (thereby further raising prices and lowering yields), or as a base for credit expansion.

Halt In Trend

This reversal in the long range trend now has, temporarily at least, come to a halt, sooner in fact than generally expected. Many wonder whether this temporary halt may not lengthen into a considerable period, whether the first phase of rising interest rates and bond yields has been completed without any immediate prospects of a resumption of the uptrend.

Such a thought, in the light of latest developments, is not at all far-fetched; the up again, down again policy of the money managers has the money market confused and guessing and uncertainties today are much greater than a year ago, the outlook far less clear.

Only two months ago, it was confidently thought that the Treasury would choose its mid-June financing to shift from the 1 1/8% rate for one-year certificates to 1 1/4%. For weeks, the money market waited for this move which had full sanction of the Federal Reserve Board, and its very expectation had a restraining influence on lending and investment policies. To the surprise of all concerned, the Treasury decided to keep the old rate at least until autumn, and this decision was promptly interpreted as an official suspension of the policy of checking credit expansion by increasing the attractiveness of short term governments as an investment medium.

The government bond market responded with the strongest rise in two years, with yields narrowing correspondingly. Corporate and municipal obligations showed a sympathetic strengthening and even the stock market, interpreting the move as inflationary, went on record with a strong burst of activity that carried prices substantially higher.

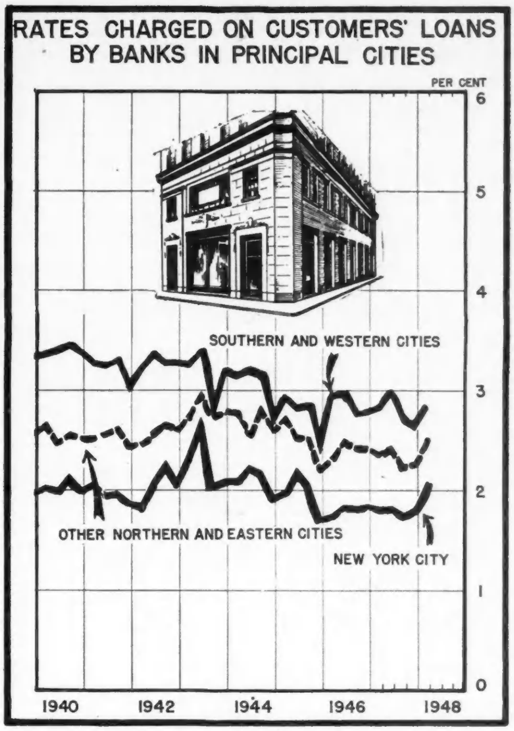
Conflicting Actions

Obviously the Treasury action, in contradiction to an almost universal impression that an increase in short term rates would be made, was regarded tantamount to an invitation to further bank credit expansion and suggesting lower yields on intermediate and longer terms bonds than witnessed in the recent past. Obviously, too, extension of the old certificate rate involves a major review of plans and portfolios by investing institutions, and is bound to affect lending and investing decisions over the months ahead.

But this wasn't all. Long at loggerheads with the Treasury over money policy, the Federal Reserve Board countered by raising reserve requirements at New York and Chicago from 22% to 24%, thereby sterilizing some $500 million in these two centers with an estimated annual earnings loss of some $5 million for the banks concerned. The avowed purpose: To restrain inflationary expansion of bank credit. This action "cooled off" the government bond market and prices gave some ground after the earlier sharp rise.

Then it was the Treasury's turn again. It took the modest step of raising for two weeks in July the limits on purchases of "F" and "G" savings bonds by non-bank institutional investors, which

may bring the Treasury perhaps some $500 million of anti-inflationary investment funds—a mere drop in the bucket.



Latest Move

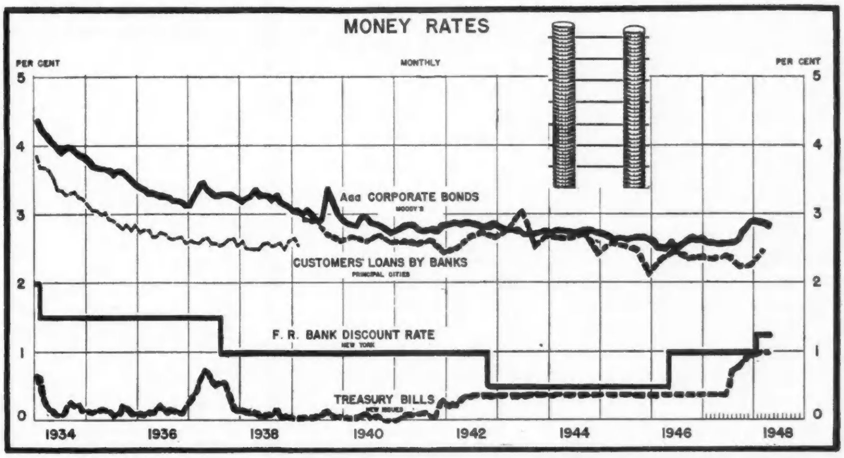
This unexpected move further weakened the market for government bonds and what with reluctance to add to positions, put the entire list on the defensive. Already shaken by the earlier conflicting measures, the market assumed a waiting attitude, accentuating its apparently none too strong technical position. Placing of funds into these non-marketable savings bonds could be mildly deflationary, provided they are taken in real substantial amounts (which is questionable) and also provided that the funds are diverted from speculative loans. The latter is far from assured. In either respect, the question of its impact is highly academic.

Thus within the span of a few weeks, we have seen the Treasury backtrack on its anti-inflationary program and the Federal Reserve Board counter with a somewhat feeble and likely ineffective effort to offset the potential effects. Behind this cleavage in policy and action are, paradoxically, fears of deflation and inflation. In the opinion of many, the Treasury move has shown that it is not too anxious in its program of tightening rates and thereby restricting commercial loans. Some feel that its reversal was largely politically inspired with the basic purpose of eliminating any possibility of credit tightness resulting in declining business activity in an election year.

Federal Reserve Board spokesmen have constantly insisted upon the inflationary implications of current trends, particularly in view of the rearmament program, foreign aid and tax reduction, all of which in their opinion has created a new situation with respect to the program of credit policy and debt management which the Administration has been pursuing to restrain the expansion of bank credit. The main prop to that program, a budget surplus, has been taken away, it is felt, since in view of stepped-up Government spending, future surpluses can hardly be expected.

Why F.R.B. Acted

Hence the Board's advocacy of higher short term rates to channel bank funds into short term governments rather than inflationary loans.



Finding the Treasury uncooperative, the Board upped reserve requirements, but the move was widely criticized since Central Reserve City banks had been reducing their loans and needed no such restraint. The Board of course must have been aware of this; its action therefore must perhaps chiefly be regarded as another warning of the serious view it holds of the existing inflationary potential. But instead of restraining bank loans, the move is more likely to force the affected banks to turn to risk investments (or long term governments) to compensate for the earnings loss occasioned by the sterilization of $500 million. It is but natural to expect more active competition for available loan outlets as banks and other lenders seek this channel to improve returns on their funds.

The Treasury's retention of its 1⅛% rate for one-year certificates was not motivated in detail but it was pointed out at the time that it wanted to remain "flexible" and retain sufficient leeway for possible action later on, if necessary.

Treasury Reversal Politically Inspired?

This means, by implication, that the Treasury for the moment professes to see no grave inflationary threat. But doubtless, behind the decision, was also the realization that the restrictive measures applied since the latter part of last year have been adequately effective, and that in view of certain factors which might suggest caution in carrying out further measures of credit restraint (such as the sharp drop in business loans during the first half of this year and a possible threat of forced inventory liquidations), it had no desire to risk the tipping of the scales in the direction of a downturn of business. (*Please turn to page* 357)

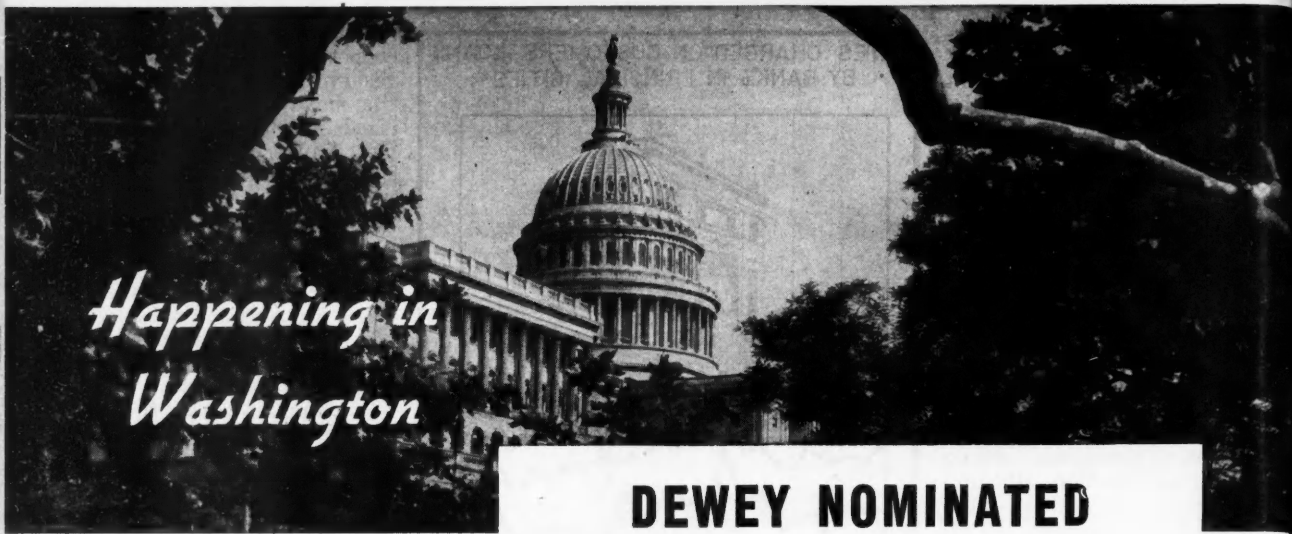


Photo by Ewing Galloway

DEWEY NOMINATED

By E. K. T.

AGRICULTURE was not overlooked in the final days of the session of congress even though there was little conscious effort to take care of the farm vote. Nothing new or revolutionary was attempted—the farmers got what they wanted and that was continued price support! That's standard practice in an election year. This time both houses tried to outdo each other in expressing their love for the men down on the farm—actually couldn't agree on a law, so they passed two. They add up to the same thing; one merely insures a longer period of price guaranty.

NOT SINCE Colonial days has the legislative situation been guided by Philadelphia parleys to the extent of the final, hectic 48 hours of the recent meeting. There was continuous telephonic contact between congressional leaders and the platform committee. There had been no intention to pass a housing law (weak though it turned out to be) until the GI pressure was applied through Philadelphia; the military draft was in doubt, as to its details. And it was the platform committee that demanded confirmation of Frieda V. Mennock as the first woman on the Communications Commission. Senate leaders wanted to hold the 7-year plum, were told they'd better act now or jeopardize women's votes.

EXPECTATION that congress will return to Washington for a mid-summer session is confined to quarters other than the inner circle which has the power to call a session. And, already, there is feeling among Martin et al. that it was a mistake to so arrange the quitting of the Capital as to leave the leadership open to demands that the Senators and Representatives get back on the job. That demand is certain to come—right in the midst of the election campaign. Democratic candidates will raise it. They can do that safely. Many fewer of their number are in the present congress and they can accuse their foes of campaigning at the public's expense instead of being at their desks taking care of the jobs to which they were elected.

FORECAST that the 80th Congress would begin each day "with a prayer and a probe" failed to materialize. There were daily prayers, as provided by law, and there were probes; but the first large-scale inquiry backfired to reduce congressional interest in studying the care and feeding of wartime contractors, lobbyists and political hangers-on under the New Deal. That, of course, was the inquiry into Howard Hughes performances.

WASHINGTON SEES:

The Republican National Committee, in nominating Governor Thomas E. Dewey, has chosen a strong campaigner and above all an administrator whose reputation for clean, honest and efficient conduct of public affairs has been earned and tested through two terms as Governor of the nation's largest state.

Mr. Dewey's position with respect to the major issues of domestic and foreign policy is well known. He has long recognized the responsibilities and opportunities which world leadership presented to this country; thus his principle of bipartisan approach to foreign relations was already laid down in his campaign in 1944. Domestically, while he has condemned the New Deal as a whole, he has endorsed many of the measures for which the New Deal is responsible.

In view of this, the democratic standard bearer —whoever it will be—will find it difficult convincingly to attack Dewey on many points which, had any other choice been made in Philadelphia, might have presented logical campaign ammunition. White House assertion that Mr. Dewey's nomination has shown that "conservative interests" are in control of the Republican party, lacks conviction if one considers that Mr. Dewey was one of the more liberal candidates to choose from. Because of this, Washington thinks, he will be a hard man to beat. He is, it is grudgingly admitted, a candidate who can win in November, for he can give unity to his party without sacrifice of principle. It is one of the reason's why the Democrats regard Mr. Dewey as the most dangerous opponent who could have been chosen for the fight in November.

As We Go To Press

The trial-and-error system by which this nation's business and industry were organized for war when the menace of Hitler became obvious, won't be repeated. At least, if planning has to do with it. Every person with a direct or collateral interest in any phase of mobilization can learn much from a pamphlet which has been issued by the Munitions Board. Naturally,being a product of Washington, it doesn't economize on title: "Military Procurement: A Guide for Joint Industry-Military Procurement Planning." But it runs only 46 pages, tells a surprisingly complete story.

Recited between its covers is the tale of why, where and how industrialists may make proper contacts in the national military establishments to assist them in determining how they best contribute to defense in the event of war. Objective is to eliminate many of the headaches which came with similar efforts a decade or less ago.

The labor market is about to experience its annual invasion of new job-seekers, the results of June graduations. About one million will be given their diplomas in high schools, and about 200,000 will walk away with collegiate degrees. Which means, roughly, that one out of five high school graduates can be expected to enter college.

The impact will be lessened somewhat by the fact that the jobs already have been cut out for many of the youths. Uncle Sam will be their employer, but relatively few could be expected to make a career out of the opportunity presented. Summertime jobs will be a cushion for many thousands of others. U.S. Department of Labor doesn't consider that the problem of absorption will be an overwhelming one.

Two clashing schools of thought -- the one favoring compulsory controls on allocation of fundamental needs for industry and the other holding out for a larger measure of self-policing -- are being brought into sharper conflict by the layoff of thousands of General Motors employees for want of steel to fill the maw of the automobile industry.

GM plants were shut down last April for lack of steel which, then, was attributed to the coal mine situation. Inescapable, say the planners here, is the conclusion that the vaunted industrial economy of the United States has extreme weaknesses. No calculations can be assured while the threat of insufficient supply, or bad distribution remains, they will tell the President in the next official summary -- the report of the Council of Economic Advisers for the next quarter.

Current business boom ,forcing industry to work at or near capacity level, has been a severe strain on basic supplies of which steel is typical. The strain will be intensified by the demands of the European recovery program, added to defense and civilian needs. The problem comes out in bold outline but the cure could be found in either one or two directions: strong central control; more effective voluntary control.

The answer isnt' in sight, but opinion here favors giving industry its preference. There's hardly a real alternative for the reason that legislation would be required as a basis for compulsion -- unless congress strains the remaining war powers more than its members have shown any willingness to do up to now.

Following a series of complaints and field investigations, the U.S. Veterans Administration is planning a code of minimum standards to be observed in building homes for veterans in cases where GI loans are involved. Shoddy construction was not localized; it was found all over the country.

The order to the VA came from the very top -- the White House. Veterans groups had brought their complaints to President Truman, but they were not alone in

the campaign. Materials men and contractors who follow ethical practices complained that they are being made targets of the broadside when a relative few in each area actually is responsible for the abuses. Mr. Truman readily saw their point.

With some of the troubles cleared up at home, the State Department is finding (as it feared it might) that European countries do not wholly understand the intent of the Marshall Plan. There's been little success in a campaign to make beneficiary nations comprehend that the idea is recovery, not relief. The line of distinction may not be clear, but it is there and the Department warns that sight must not be lost of it.

Original intention was that direct consumption goods would be in the category of grants in aid -- free. The capital goods items -- machinery, most raw materials -- would be under loans, with a division of roughly 60-40 between the two classifications. Beneficiary countries are attempting to manipulate their orders to receive more of the free goods, less of the commodities they're expected to pay for. The latter items, of course, are the ones which are intended to help Europe restore its industry and agriculture, regain its capacity for meeting its own needs.

Economists here are firmly convinced that the trend of food prices will head sharply downward. There are exceptions. They're counting on a price break in Argentine which they see coming through these conditions: Peron is not finding market for his wheat and meat at his high price levels, and by holding off too long has created problems of storage and deterioration in Argentina. Now, to save further losses, he'll have to move speedily.

Additional problems are said to beset Peron. The Soviet and its satellite countries are said to have excellent crop prospects for grain. The process of dumping may begin at any time, bringing down with the grain prices, those of fats and oils. Should that happen, a curtailment of United States exports is in prospect, driving prices down to the level of federal guarantee of market support to farmers. The situation is being closely watched.

Opinion in Washington divides sharply on whether President Truman helped or hurt his chances of election in his swing about the country. No estimates can be based upon the reception he received in the several centers at which he stopped; it ranged all the way from thunderous ovation on the West Coast, to cold indifference, even hostility, at in-between points. Both national party headquarters say they're happy Mr. Truman made the trip. Statements which may be discounted equally on both sides, in fact could have been prepared in advance of the expedition.

More experienced politicians in Washington pay little attention to tumultous applause, anyway. They recall that Alfred E. Smith received most of the ovation, Herbert Hoover got most of the vote. And, more recently, that saw Harold Stassen ride out of the mid-west, to zoom to heights and more rapidly plummet to the depths. On the other hand, they saw the 1940 republican convention boo Rep. Halleck throughout his speech nominating Wendell Willkie -- and then go on to put Willkie at the head of the ticket, roll up a huge popular vote for him.

In last analysis, belief here is that Truman's fate will be sealed in small gatherings, not in huge demonstrations. Will labor's rank-and-file follow its leadership away from Henry A. Wallace? Will the southern states tag along eventually, remain in the fold? Will Truman withdraw? Actually, the last of these queries is exciting more comment in the Capital today than at any time previously.

If a number of influential political leaders have their way, the 1948 national conventions will be the last to be held at a site other than Washington. That will involve construction of a huge public auditorium, possibly; there is only one here now which is large enough to accommodate the usual attendance, and it is privately owned. But members of congress are complaining about hotel costs in Philadelphia -- and most of them already have Washington residences or apartments!

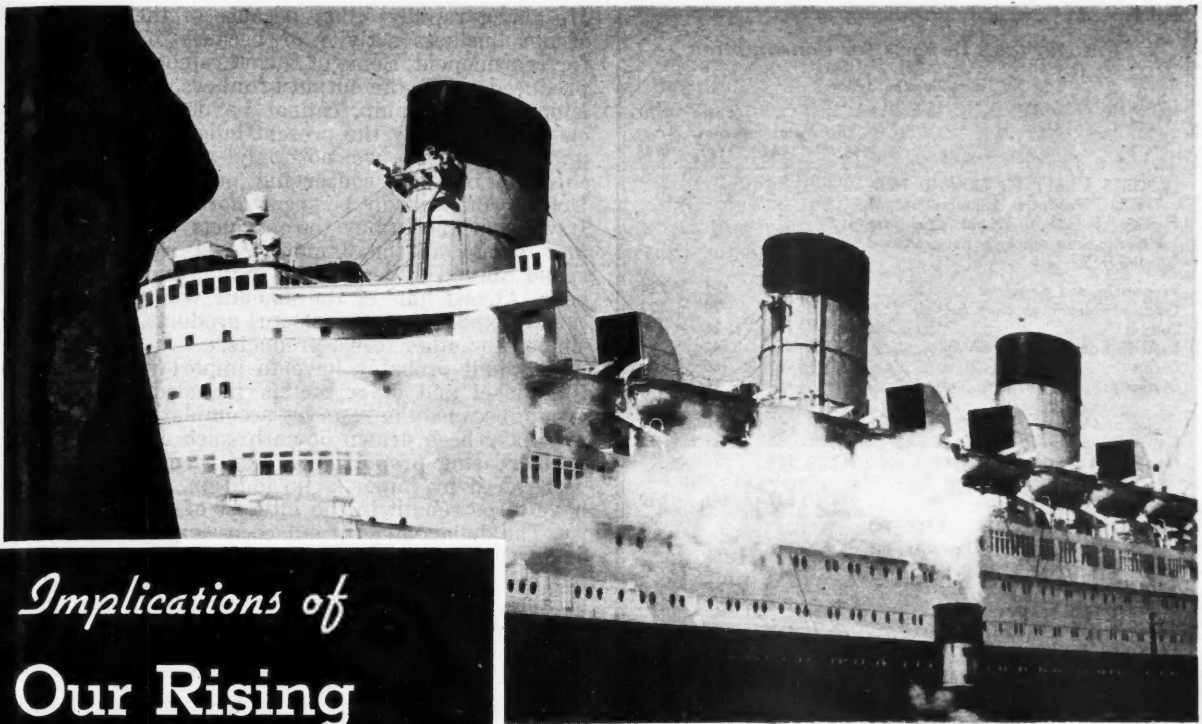


Photo by Devaney

Implications of Our Rising PURCHASES ABROAD

By V. L. HOROTH

One of the most constructive developments in recent months, from the viewpoint of international trade relations and postwar recovery, is the trend toward greater imports by the United States. The constructive nature of this development is obvious. We are getting something for our money, and foreign countries are getting dollars which they can use where and how they please. Instead of spending dollars for relief or for goods that are given away, we are spending dollars for goods that supplement our own resources that were subject to a great drain during the war years, and for goods that help to meet our needs and fill our shelves, thereby helping us to combat inflation.

Our imports began to rise last December, and for four months to March 1948, they were on the average over $100 million a month larger than in the corresponding period one year ago. However, in April, the dollar value of our imports dropped rather sharply, although, as will be seen from the appended chart, it was still ahead some $40 million over April 1947.

What will happen to imports during the rest of this year is difficult to foretell, but this can be said: if the first four-month average is maintained during the next eight months—and there is no reason why it should not be—then total imports for 1948 should be around $6.8 billion. At that level they would be at least $1¼ billion larger than our 1947 imports which totaled $5.6 billion, and over $2 billion ahead of 1946, when we imported goods worth $4.8 billion.

As a result of our rising purchases abroad and our declining sales abroad, the great gap in our international payments has already contracted substantially, as revealed recently by the figures released by the Department of Commerce. In 1947, it will be recalled, our exports of goods and services reached the unprecedented figure of $19.7 billion, as against our imports of goods and services of only $8.5 billion. The huge gap, amounting to nearly $11 billion, had to be covered by our loans and gifts, and by drawing heavily on foreign-held gold and dollars accumulated during the war. During the first quarter of 1948, the excess of our goods and services shrank to an annual rate of $7.5 billion, which is still a huge amount. Since foreign countries are scraping the bottom of the barrel insofar as gold and dollars are concerned, most of this year's gap in our international payments will have to be settled by U. S. Government gifts and loans.

Why Imports Rose

A number of developments have contributed to the rise of our imports. Some of these influences are still at work, and powerful enough to keep this year's level above last year's. In anticipation of the reader's query which imports are rising and why, we have compiled a master table in which the principal import products are classified according to the influences affecting them.

The most important group is the first one. It includes the commodities, our requirements of which

United States Imports for Consumption (in millions of dollars)	Full Years 1939	Full Years 1947	First 4 mos. 1947	First 4 mos. 1948
IMPORTS LIKELY TO EXPAND FURTHER: (Products, consumption of which is increasing, but which are either in short supply or not produced in the U. S.)				
Woodpulp and newsprint	191	600	161	224
Crude petroleum, gasoline, fuel oil	34	247	79	127
Copper	41	144	26	58
Lumber, boards, planks, shingles	29	120	40	54
Cocoa	28	152	56	86
Diamonds, raw, cut, industrial	46	110	18	43
Tin	71	43	3	22
Nickel and alloys	25	42	15	20
Ferro alloying ores	16	53	17	22
Non-ferrous ores and concent.	17	101	26	33
Total above	498	1,612	441	690
COMPETITIVE IMPORTS LIKELY TO EXPAND FURTHER: (Products, the output of which abroad is now beginning to expand)				
Foodstuffs and Beverages—				
Various manufactured foodstuffs	60	108	34	45
Fresh and dried vegetables	6	40	27	32
Meat products, cheese, etc.	41	28	6	21
Wines, whiskey and spirits	58	65	18	24
Fish, fresh, canned, etc.	20	37	11	16
Vegetable oils, edible	11	8	2	8
Total above	196	286	98	146
Manufactures—				
Cotton manufactures	47	24	9	13
Wool manufactures	25	40	13	24
Silk and other textile manufactures	29	36	12	17
Machinery and vehicles	16	67	22	46
Industrial chemicals, and coal tar prod.	32	44	16	14
Leather and manufactures	16	30	13	11
Pottery	7	10	3	5
Inedible vegetable and animal oils	10	20	10	7
Total above	182	271	98	137
IMPORTS AFFECTED BY SPECIAL INFLUENCES: (Tariffs, shipping difficulties, special deals—future movement uncertain)				
Wool, raw	49	209	84	129
Hides and skins	47	86	27	52
Undressed furs	49	121	31	51
Jute and burlap	31	120	32	53
Total above	176	536	174	285
IMPORTS INFLUENCED BY "HAND-TO-MOUTH" BUYING: (Price outlook uncertain — future consumption uncertain)				
Coffee	139	600	241	234
Sugar	125	410	131	103
Rubber	181	323	126	102
Oil seeds and medicine oils	74	230	90	84
Tobacco	37	91	50	26
Silk	121	16	10	3
Total above	677	670	648	552
OTHER SELECTED IMPORTS:				
Fertilizers	24	32	10	17
Bananas	29	49	15	15
Tea	22	28	12	17
Cotton and flax	11	50	7	7
Drugs, crude	11	24	10	7
Total above	97	183	54	63
GRAND TOTAL (incl. others)	2,276	5,642	1,880	2,294

are rising rapidly either because of the high level of our business activity or because of stockpiling for rearmament. Some of them are not domestically produced, while the output of others, such as petroleum and woodpulp, cannot be developed quickly enough to satisfy the present bulge in demand. By importing them, we not only are getting them cheaper, but are conserving our own resources. Dollars could hardly be spent more advantageously. If we continue to buy the products included in the first group at the January-April rate, we shall spend abroad at least $500 million more than last year. Almost half of the amount will go for additional exports of petroleum products, woodpulp, timber and other forest products.

We shall probably have to import more copper, tin, nickel and other metals included in the first group, because the reserves accumulated during the war have been drawn down to such an extent that an increasing proportion of our needs will have to be covered by imports. In addition, stockpiles will have to be rebuilt in the interest of national security. The dollar value of our cocoa imports will, very likely, be also kept ahead of last year's figures, partly because of much higher prices, and partly because of our expanding consumption. The question is: Will cocoa be available.

Competing Products

In the second group are included products, such as processed foods and beverages and manufactured goods, that are likely to challenge our domestic producers. They are not essential to our national security, and with the exception of a few specialties could be produced here. We are buying more of them because their production abroad is beginning to expand, and because the countries making them are anxious to earn dollars. They are the products through the sale of which the worldwide shortage of dollars could be appreciably relieved.

On basis of our tabulation which includes only the most important products, we probably would not be far from right in saying that last year we spent for these competitive products around ¾ billion dollars. This year, on basis of our January-April purchases, we may spend for them from $1 to $1¼ billion. Considering that the total value of all goods produced in this country will probably reach $135 billion in 1948, this is but a drop in the bucket and hence unlikely to affect unfavorably our economy as a whole. No major industry is likely to suffer because of the importation of these products which present foreign countries with an excellent opportunity to earn a few dollars and thus right their trade balance with us.

As will be seen from the master table imports of machinery and vehicles made the best showing. Cotton and woolen textiles are now being imported at an annual rate of about $100 million, and there is a good chance that this rate will increase further. The reson for this is that foreign countries are now able, for the first time since the war, to compete with our goods. While domestic production costs have been rising, necessitating the mark-up of merchandise, the imported goods have been helped by lower tariffs and possibly to some extent also by the devaluation of the French franc and the Italian lira. There will be many complaints from textile manufacturers, but if the foreign product can be sold cheaper here, there is no reason why the American consumer should not get the benefit of the lower

Countries Benefitting from Our Increased Purchases Abroad

(in millions of dollars)

	First Quarter 1947	First Quarter 1948	Actual Imports 1939	Actual Imports 1947	Annual Rate 1948
I. Countries Sending Us More Goods					
a) Industrial Materials and Foodstuffs					
Canada	244	328	340	1,096	1,312
Philippines	38	65	92	162	260
South America					
Uruguay	7	26	10	37	104
Argentina	42	69	62	155	276
Venezuela	45	66	24	174	264
Chile and Peru	27	58	55	164	232
Brazil	118	128	107	445	512
Colombia	57	63	49	205	252
Africa					
Nigeria and Gold Coast	25	46	15	83	184
Union of South Africa	19	34	27	112	136
Belgian Congo	3	9	1	32	36
Other Africa	23	28	34	99	112
Total	648	920	816	2,764	3,680
b) Manufactured Goods:					
Great Britain	47	68	150	205	272
France	14	16	62	47	64
Netherlands and Belgium	18	25	93	85	100
Italy	12	20	40	43	80
Iceland, Norway, Sweden, Denmark	23	42	68	122	168
Other West Europe	38	47	104	144	188
Total	152	218	517	646	872
II. Countries Maintaining Their Sales					
Japan	13	12	161	36	48
Indonesia	12	11	92	34	44
Mexico	70	72	56	247	288
Australia and Oceania	47	48	26	156	192
India and Pakistan	69	67	66	253	268
Malaya	87	76	149	284	304
Total	298	286	550	1,010	1,144
III. Countries Selling Us Less					
Cuba	105	94	247	510	376
China	39	29	62	116	116
Total	144	123	309	626	492
Grand Total (incl. others)	1,412	1,794	2,317	5,734	7,176

price, particularly in these days of advancing living costs.

In the next group in our table are included the commodities which were affected by special influences. For example, imports of wool were heavier than otherwise might have been the case, because shipments prior to January 1948 were held back for tariff reductions. Although we may import relatively less wool during the remaining part of the year than we did during the first months, nevertheless the total for the year may be considerably larger than in 1948. Again, as in the case of copper, petroleum, and several other products, the reason for this is that our dependence on foreign wools is increasing. The domestic production of wool has been declining largely because of rapidly rising costs and because sheepgrowers can get better returns by marketing mutton rather than wool.

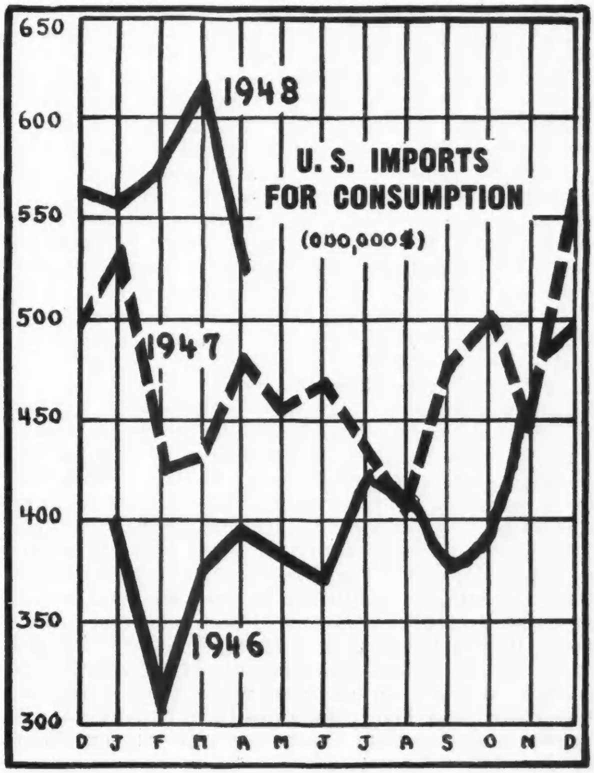
Imports of jute and burlap were also unusually heavy because shipments had been previously held back owing to the negotiations between the Indian and Pakistan Governments. Similarly, a drop in Argentine hide prices released previously withheld shipments.

The fourth group includes the commodities which we are importing on what might be called a "hand-to-mouth'" basis, largely because of the uncertain price outlook. During the first four months of this year we spent for them more than $100 million less than in the same period in 1947. Coffee, which normally ranks first among our imports, and sugar and rubber, which are respectively the third and the fourth largest, are in this group. The shadow of increasing world supplies hangs over all three of theh, and the situation has been made worse by the world-wide shortage of dollars. Unless we provide the consuming countries of Europe with dollars or unless Europe earns them, these commoditeis and a number of others—oil seeds and vegetable oils, for example—may go begging for a market. Meanwhile United States importers have been biding their time.

How Individual Countries Benefit

What countries are earning more dollars as a result of our rising purchases abroad? The answer may be found in the second table, which gives the 1948 rate of imports (based on the first quarter imports—the four months' figures being unavailable at the time of this writing) together with comparisons for 1939 and 1947.

The first group, earning dollars at the annual rate of $900 to $1,000 million more than last year, includes mostly the countries selling us products, the consumption of which (*Please turn to page* 357)



Trend in Consumer Credit

WITH SURVEY OF CONSUMER INCOME AND DEMAND

By H. S. COFFIN

According to the Federal Reserve Board, April figures raised total consumer credit outstanding to an all-time high of $13.59 billion. Since this is slightly more than double the $6.6 billion reported at the end of 1945, such an enormous gain within a two-year period has aroused widespread controversy among bankers, economists, Government officials and business men over its basic significance. How much further the trend is likely to develop as an inflationary factor or merely as a normal support to consumer purchasing power, depending on the viewpoint of these analysts, has stimulated some interesting discussions. The subject directly concerns investors, too, not only because of its significance in appraising finance company shares, but also because of the importance of consumer spending, and spending habits, to the earnings potentials of other industries.

It has only been through the last three decades that consumer credit has come to play a prominent role in the economy, and its growth has tended to follow the fluctuating pattern of national income. The development of mass production in the United States could hardly have proceeded at its historical pace, if mass markets had not been stimulated by an expansion in personal credit facilities. This has been particularly true as regards the production and sale of durable goods, such as automobiles, refrigerators, electric appliances and the like, commonly assigned a high place in sustaining desirable business activity. Additionally, sales by retailers of food and clothing, home furnishings and other necessities have been largely expanded by the use of wisely predicated personal credit or charge accounts. And by degrees, some of the most conservative banks and loan companies have learned by experience that salary loans provide an excellent credit risk.

Provided that easy money rates and ready borrowing facilities do not lead to top-heavy consumer debt that might bring trouble when boom times end, both to the lenders and their clients, a reasonable proportion of private spending based upon credit appears not only desirable but essential as well. Many students of this subject wrongly assume that credit financed purchases are a sure sign that consumers are living beyond their income, and that it would be much better for everyone concerned if they thriftily accumulated cash in advance rather than burden themselves with commitments spread perhaps over an extended period. But past experience shows that the higher the level of prosperity, the faster consumer credit expands, and that it contracts rapidly when hard times arrive. Back in the flush days of 1929, for example, total consumer credit rose to $7.6 billion, only to shrink to $3.9 billion in 1933, then gradually climbing to $9.1 billion by 1940. Just how closely related these figures were to disposable income we will presently discuss.

Fluctuates With Degree of Prosperity

The main thing to realize is that, by and large, consumers lean on credit more extensively and confidently in periods when their financial security seems better assured, and trim their sails when uncertainty arises. While it appears true that tight family budgets under current conditions have reduced the rate of savings and caused much liquidation of Government savings bonds, the astonishing expansion in consumer credit during the last two years does not necessarily spell extravagance or distress. To acquire a new car has become as essential to many a worker as to find a roof for the family, and if his job appears secure, he finances the purchase on installment terms, even at the risk of having to curtail other living expenses.

The average buyer of a modern refrigerator may or may not have ample resources, but figures that his installment payments plus interest could hardly exceed his former monthly check to the iceman, so why not? And with housewives now forced to go without help or to pay burdensome wages, modernization of the home through acquisition of labor saving devices by time payments is quite as rational as for an industrial concern to incur debts in the course of improvement programs; even more so perhaps, as consumer credit generally involves relatively small sums.

All said, it is interesting to consider what employ-

Stastical Data of Leading Finance Companies

	($ million) Receivables		Net Per Share						
	1946	Latest	1946	1947	1st Quar. 1948	Div. 1947	Div. Yield	Recent Price	Price-Earnings Ratio
Associates Investment	$ 90.6	$178.5	$1.42b	$3.57b	$1.22b	$1.40b	4.2%	$33	9.2
Beneficial Industrial Loan	98.8	111.6	2.25	2.56	.71	1.50	6.0	25	9.8
C. I. T. Financial	304.6	543.8	1.27	2.03	.86	2.00	4.2	48	23.5
Commercial Credit	204.6	374.9	2.15	3.85	1.51	2.00a	4.0	51	13.2
General Finance	33.3	38.5	def.67	.97	.28	.20	2.8	7	7.2
Household Finance	115.7	141.8	2.43	3.19	.89	1.80	5.6	32	10.0

a—Does not include 25c declared in 1947 but paid in January 1948.
b—Adjusted.

ment and industrial activity might have been, and might be today, if consumers had been forced to buy all their cars, for example, on cash terms during the past twenty years. Moreover, while the facts show frequent repossession of goods by the lenders, and collections are sometimes slow, the banks and finance companies seldom lose more than 1% or 2% of outstanding credit funds over a period of years. This attests not only to unusual care in approving credit applications, but more importantly that American consumers as a rule represent good risks and that assumption of instalment debt is usually well considered.

Since disposable income (the national income after taxes) established a record high of $175 billion in 1947 and our population has increased by 10 million since 1940, the current relationship of consumer credit to income is of particular importance.

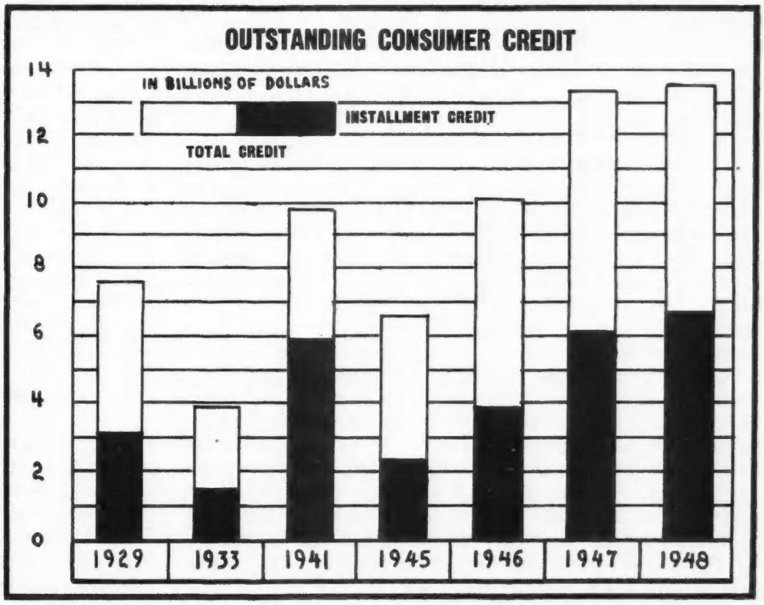
Relation to Income and Population

During the 1929-41 period, the ratio of credit to disposable income averaged about 10%, fluctuating within a narrow range of about 9% to 11% despite the decided variations in economic activity. Measured by this same yardstick, the $13.59 billion of consumer credit currently outstanding represented less than 8% of disposable income, a ratio considerably below normal. To reach the prewar average of 10%, consumer credit could rise to $17.5 billion without arousing undue alarm. In fact, to match this percentage, the total could rise above $20 billion by the end of 1948 and yet not be out of line if disposable income crosses the anticipated $200 billion mark.

What counts strongly in these calculations is the price factor, as it affects the relative unit purchases of goods. Based on prewar prices, the physical volume of goods bought on credit terms would look far smaller, especially in view of 3 million new families to be provided for and the present high level of employment. Then again, in discussing total consumer credit, the figures include not only installment sales but charge accounts payable in one sum, repair and modernization loans of the FHA, personal and service loans as well. Broken down, statistics compiled by the Federal Reserve Board show that total credit based upon installment payments alone, as of April 30, amounted to $6.73 billion, leaving about $7 billion for other types of consumer credit. Going further, it appears that only about $3 billion of installment credit has been used in connection with the sale of goods, compared with $3.7 billion installment sales credit outstanding at the end of 1941.

Retrictions Removed

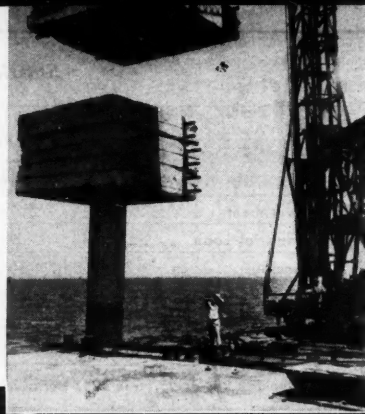
Removal of Regulation "W" last November naturally stimulated installment selling all along the line and at a time when the supply of many durables was still limited. In reflection of increased production of automobiles, installment paper in this field during six months following November climbed about $71 million per month to a total of $1.47 billion. In similar fashion, credit for the purchases of refrigerators, radios, furniture, washing machines, etc., rose $57 million monthly to aggregate $1.66 billion. Due weight must also be accorded to a rise to $3.59 (*Please turne to page* 362)



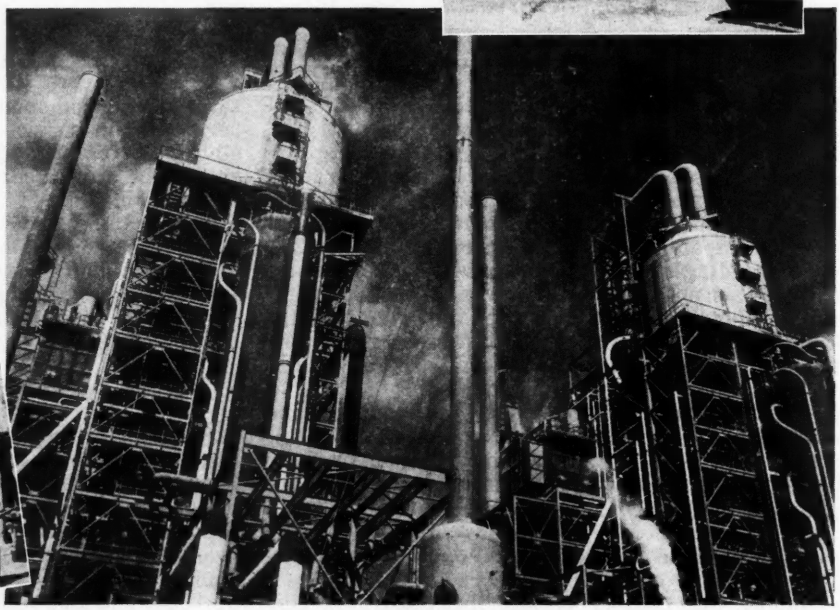
Romance and Prospects

OF

Standard Oil of N. J.



By J. C. CLIFFORD



The story of Standard Oil Company (New Jersey) is the history of the petroleum industry. "Jersey" is the father of 'em all. Its origin dates back eighty-six years to the Civil War. Standard Oil's and the industry's growth has been phenomenal. In fact, because of the vast fortunes derived from petroleum, it is not surprising that stocks representing the industry have held a strong fascination for the investment public.

There seems to be a great deal of confusion, especially among investors of the younger generation, over the corporate title Standard Oil. Because there are so many "Standard Oil" concerns whose securities are outstanding in the hands of the public, it may be well at the outset to outline briefly some of the developments that led up to the famous dissolution of 1911, when the parent company disassociated itself from thirty-three separate subsidiaries. Many of these affiliates, recognizing the trade value of the name "Standard Oil" and feeling entitled to retain it, did so with the result that there came into existence such concerns as Standard Oil Company (Indiana), Standard Oil Company of California, Standard Oil Company of New York and others. The last named later consolidated with another former "Jersey" unt, Vacuum Oil Company, to form Socony-Vacuum Oil Company, Inc., now one of the large competitors of "Jersey."

Strictly speaking, The Standard Oil Company (Ohio) is the original parent. This was the first corporation formed by John D. Rockefeller and his partners when they launched their plans for expansion throughout the country. Before that time, Mr. Rockefeller and his partner in the produce business in Cleveland, M. B. Clark, invested $4,000 in the construction of an oil refinery. With them was associated Samuel Andrews, a young Englishman. At the time Mr. Rockefeller was about 20 years old and had become interested in potentialities of petroleum after Edwin L. Drake, a retired railroad conductor, had successfully completed the first oil well in Titusville, Pa., in 1859. The refining venture was immediately successful and within a comparatively short time, Mr. Rockefeller decided to abandon the produce business in favor of oil. Accordingly, he purchased Mr. Clark's interests and formed the firm of Rockefeller & Andrews.

The First Standard Oil Company

Eight years after formation of the original partnership, that is, in 1870, Mr. Rockefeller and his partners formed The Standard Oil Company, incorporated in Ohio, with a capitalization of $1 million. Production had outstripped refinery facilities and as markets broadened, transportation became a serious problem. Demand for the derivatives of crude petroleum centered chiefly on kerosene, or

TABLE A

Long Term Operating and Earnings Record

Years	Net Crude Oil Produced (mill. bbls.)	Gross Operating Income ($ mill.)	Depl., Depr., etc. ($ mill.)	Net Operating Income ($ mill.)	Operating Margin (%)	Net Income ($ mill.)	Net Profit Margin %)	Net Per Share	Dividends Per Share	Price Range
1947	362,080	$2,354.9	$143.0	$295.1	12.6%	$268.6	11.3%	$9.83	$4.00	80 -63
1946	335,800	1,622.3	120.0	183.3	11.3	177.6	10.8	6.50	3.00	78¾-61⅝
1945	307,278	1,521.1	137.5	186.3	12.2	154.1	9.4	5.64	2.50	68⅞-56
1944	287,757	1,638.7	119.5	204.6	13.3	155.4	9.4	5.69	2.50	58⅛-50¾
1943	218,554	1,302.8	110.9	148.5	11.4	121.3	9.2	4.51	2.00	60 -46½
1942	173,157	1,039.3	87.3	110.5	10.6	81.8	7.9	3.00	2.00	47 -30½
1941	226,752	978.3	90.9	168.7	17.2	140.6	13.8	5.15	2.50	46⅞-33
1940	195,330	821.6	95.8	123.7	15.0	123.9	14.4	4.54	1.75	46½-29⅞
1939	....	933.7	98.7	118.1	12.7	89.1	9.3	3.27	1.25 b	53½-38
1938	....	1,173.7	111.4	96.6	8.2	76.0	6.3	2.86	1.50 b	58⅜-39¾
10 Year Average, 1938-47	....	$1,338.6	$111.5	$160.9	12.3%	$138.8	10.2%	$5.09	$2.30	80 -29⅞
4 Year Average, 1938-41	....	$ 976.8	$ 99.2	$126.8	13.3%	$107.4	10.9%	$3.95	$1.75	58⅜-29⅞

b—Plus stock.

"lamp oil" as it then was known, lubricating oil, axle grease and similar products. Gasoline that resulted from the refining process was unwanted and generally was discarded. Kerosene was so superior to whale oil, which had begun to displace candles a century ago, that refineries were established along the Eastern Seaboard to supply large markets.

As Mr. Rockefeller gradually overcame handicaps in refining operations and in transportation, he and his associates turned to the idea of expansion in the East. In the three or four years after organization of the Ohio company, several large refineries near large cities, such as Pittsburgh, Philadelphia and New York were acquired. New interests joined forces with Mr. Rockefeller—such men as Henry M. Flagler, John D. Archbold, William Rockefeller and others—and in 1882, a trust agreement was formed as the nucleus of the enlarged organization. Separate companies were formed under the trust agreement designated by state names, such as Standard Oil Company of Kentucky, Standard Oil Company of Kansas, etc., in addition to the units previously mentioned in Indiana, New York and New Jersey.

Court Action

In due course, legal action was started against The Standard Oil Company (Ohio), charging that it had been chartered to do business in Ohio, but actually it had become a trust and had spread to all parts of the country. The court ruled in 1892 that the original Ohio company could not legally recognize transfer of its stock to the Trust, and as a consequence of this ruling the Trust was dissolved. All assets were transferred to a new corporation, organized in New Jersey, because the laws of that state permitted corporations to own shares of concerns incorporated in other states. The new company had a capitalization of $100 million and immediately was recognized as the dominant factor in the industry. Capital was invested by the general public as the shares became available in the market. Properties abroad were acquired, and the company extended its operations throughout the world.

The Big Anti-Trust Case

This was the company, against which the Federal government brought action under the Sherman Anti-trust Act of 1890, charging that competition was being stifled through the extensive network of producing, marketing and transportation units throughout the country. After five years of bitterly contested litigation, the Supreme Court handed down an epochal decision in May, 1911, in which it decreed that the parent New Jersey company might not vote stocks of its subsidiaries or exert control over them. The various state units were enjoined from paying dividends to the top holding company. As a consequence, the parent company was successfully barred from doing business along the lines previously followed.

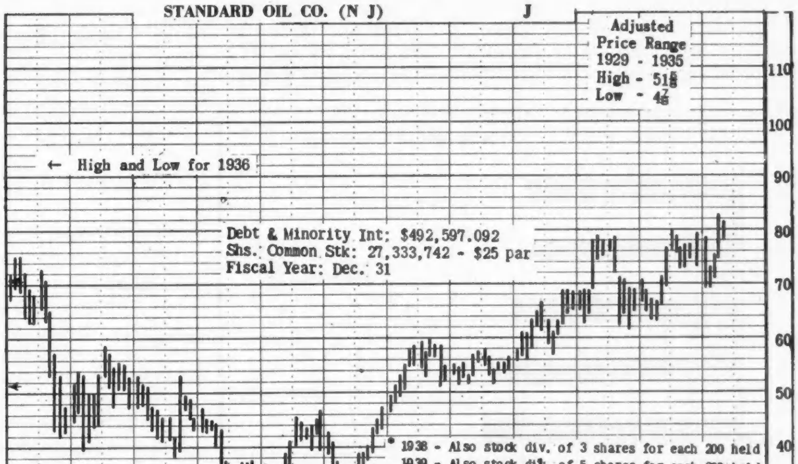


TABLE B

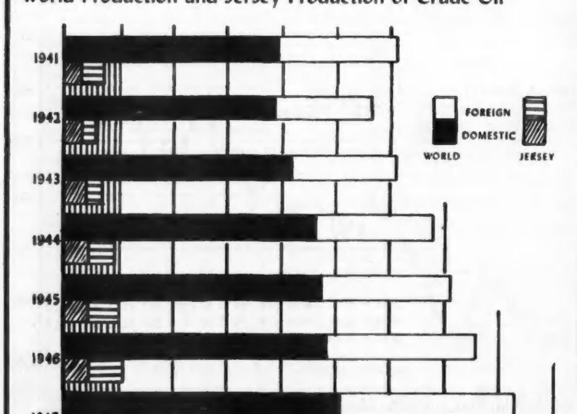
Comparative Balance Sheet Items

	December 31, 1940	December 31, 1947	Change
ASSETS	(000 omitted)		
Cash	$ 189,256	$ 192,407	+$ 3,251
Marketable Securities	98,993	273,692	+ 174,699
Receivables, Net	99,389	227,037	+ 127,648
Inventories	218,336	351,084	+ 132,748
TOTAL CURRENT ASSETS	606,040	1,100,562	+ 494,522
Plant and Equipment	2,306,537	n.a.	n.a.
Less Depreciation	1,228,314	n.a.	n.a.
Net Property	1,078,223	1,524,122	+ 445,899
Other Assets	387,275	371,305	— 15,970
TOTAL ASSETS	$2,071,538	$2,995,989	+$924,451
LIABILITIES			
Notes Payable	$ 3,013	$ 5,205	+$ 2,192
Accounts Payable	57,963	225,285	+ 167,322
Reserve for Taxes	37,923	138,695	+ 100,772
Other Current Liabilities	21,286	41,309	+ 20,023
TOTAL CURRENT LIABILITIES	120,185	410,494	+ 290,309
Reserves	133,587	200,312	+ 66,725
Capital	682,089	683,343	+ 1,254
Surplus	618,087	1,134,479	+ 516,392
TOTAL LIABILITIES	$2,071,538	$2,995,989	+$924,451
WORKING CAPITAL	$ 485,855	$ 690,068	+$204,213
CURRENT RATIO	5.0	2.7	— 2.3

Within a comparatively short time, action was taken to break up the vast Standard Oil Trust, as it was popularly known. Stocks of the thirty-three separate subsidiaries were distributed pro rata to stockholders of the parent company. In the following year the shares were introduced to trading on the New York Curb Exchange and ranged between 355 and 429. The price rose to 910 in 1920 just prior to a four-for-one split.

Perhaps the court decision, undoubtedly influenced by public opinion, which had been roused against "big business," discouraged Mr. Rockefeller, for within seven months after the divestment decree he retired from active participation in all his Standard Oil interests at about the age of 72. He had had the vision and the genius that enabled the petroleum industry to expand and extend its benefits to all corners of the globe. He lived to see many one-time subsidiaries become strong and active competitors. Since the break-up, Rockefeller representation in Standard Oil gradually has diminished, although many of the founders' descendants still are stockholders. It is said that today no one owns more than 3.3 per cent of the Jersey company's stock.

World Production and Jersey Production of Crude Oil



Dismemberment provided serious problems for virtually all of the various segments in 1911. In the case of many, operations were greatly unbalanced. The Jersey company, for example, was left with large refineries and extensive foreign interests, but it was able to retain comparatively little productive capacity and virtually no transportation facilities. The pipelines belonged to transportation units which had been segregated, and principal sources of production were owned by other units. For several years it was necessary to purchase crude from others and to concentrate on development of markets within the Jersey company's rather limited market area. In this early period efforts were intensified on foreign developments and explorations were begun in the Netherlands East Indies, where later important sources of petroleum were discovered.

Oil and the Motor Age

Demand for gasoline had begun to become important in the first decade of the new century as motor cars appeared. Henry Ford had introduced his "Model T" shortly before the first World War at a price which greatly broadened the market and within a few years after breakup of the Standard Oil empire automobile production had grown by leaps and bounds. The war came along to stimulate demand for gasoline and by 1918 the industry had expanded its facilities enormously. Between the end of the war and the later 1920's, Jersey Standard grew rapidly through acquisition of interests in crude producing concerns and in development of properties abroad. A 50 per cent interest in Humble Oil & Refining was obtained in 1919 and later the investment was enlarged to more than 70 per cent. South American properties were enlarged with acquisition of a major interest in Creole Petroleum in 1928. Lago Petroleum later was added and merged with Creole along with Standard Oil of Venezuela. The Jersey company now operates in all Latin American countries except Bolivia and Mexico, in which the company's properties were expropriated about a dozen years ago.

Venture in the Middle East

Some twenty years ago Jersey Standard, along with other oil companies in this country, obtained an interest in rich oil fields of the Middle East. This venture is an intriguing story in itself. Marketing and refining units were established in many European countries and by 1939, the company was operating in nineteen European countries as well as in almost all of northern Africa, including Egypt, Algeria, Tunisia and French Morocco.

The company's extensive foreign associations paved the way for one of the most significant aspects of its development of chemicals, synthetic resins and other interesting products. As the events of twenty years ago are viewed in retrospect, it may be said with considerable logic that Jersey Standard's European affiliations and its intensive research activities contributed vitally to winning the recent World War. This chapter (*Please turn to page* 359)

Diversified Stake in STABILITY

—COMPANIES ABLE TO MAINTAIN THEIR POSITION

By GEORGE W. MATHIS

Rarely during good times have so many sound stocks been quoted at prices with a low ratio to current earnings as at present. This reflection of widespread uncertainty as to what may be in store for net earnings and dividends during the medium term is rational as applied to those segments of the ecenomy where supply now seems near or in balance with a deferred demand. On the other hand, there are situations where a sustained high level of sales and earnings is clearly indicated, warranting confidence in the dividend and appreciation potentials of the equities concerned.

Assuming that some of our readers might improve their portfolio positions by carefully timed acquisition of shares in this latter category, we have selected four concerns that in our opinion come well up to the mark. We have purposely limited the number of companies in the various fields with the thought that inclusion of the four stocks selected would provide a diversified stake in industries and individual enterprises with exceptional promise during the foreseeable future. Such a program will meet conservative requirements, provide attractive yields and support hopes of price appreciation in the long run, three factors that not too often can be found in combination.

Well Sustained Demand Indicated

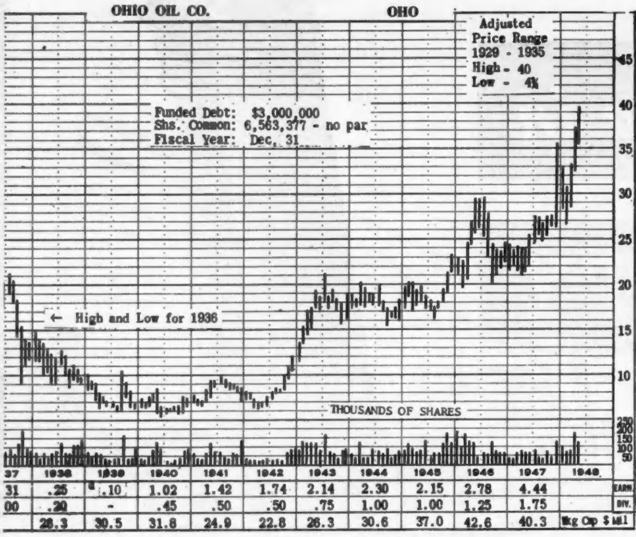
We have been guided in our choice of industries by a study of current and prospective demand conditions—where little or no letup appears probable for at least several years to come and where continued high level activity should be sustained by a steady inflow of new orders rather than by reliance upon the unsatisfied and rapidly vanishing demand characteristic of early postwar. In other words, producers of petroleum products, steel, railway equipment and automotive or aircraft parts appear to enjoy a particularly encouraging outlook for quite a while to come.

Cyclical Factors Minimized

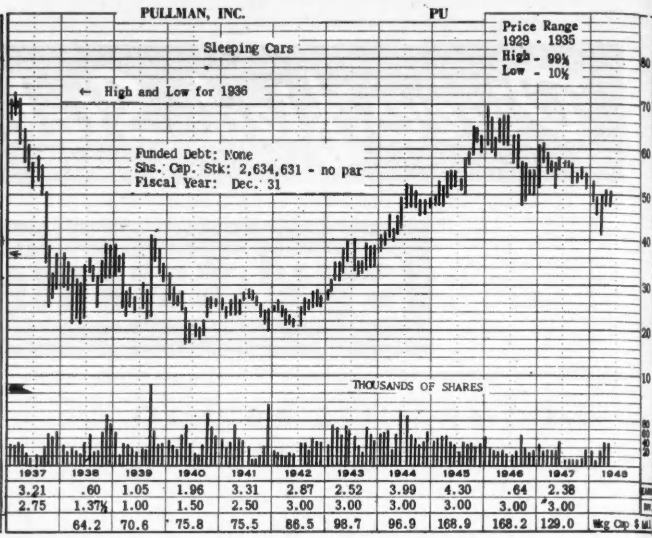
While it is true that most of these industries are sensitive to cyclical changes, a fact that deserves due weight, their progress for several years appears to be so clearly marked with prosperous conditions as to minimize the hazard of recessive influences. More important in the current picture is the relationship of share prices to present or potential dividends, provided the next few years turn out to be as profitable as all signs now indicate. It seems hardly likely that if forthcoming interim reports confirm our optimistic appraisals of these special industrial outlooks, the stock market will fail to respond with some vigor in these groups. This would be the natural result if factual evidence of well maintained earnings becomes a substitute for much of the present skepticism; and in our opinion this could rather easily occur during the medium term. If, on the other hand, the adverse affects of a business recession come to be felt in the economy, these industries under discussion should prove more resistant than some others for a while.

Where well entrenched, well managed and financially sound firms in the above mentioned industries are now reporting record breaking peacetime sales and have accumulated sizable backlog orders, the road ahead holds much promise. As a result of modernization and expansion programs, volume should be stabilized, profit margins bolstered and net earnings held at satisfactory levels. Dividends should be secure, with chances for further improvement.

On the following pages we present condensed analyses on each of the four concerns chosen, along with balance sheet figures, earnings and dividend statistics, and charts to show market action of the shares over a considerable period. As for advice in respect to timing of commitments, our market specialist, Mr. A. T. Miller lends his counsel regularly in our publication.



37	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	
31	.25	.10	1.02	1.42	1.74	2.14	2.30	2.15	2.78	4.44		EARN.
00	.20	-	.45	.50	.50	.75	1.00	1.00	1.25	1.75		DIV.
	28.3	30.5	31.8	24.9	22.8	26.3	30.6	37.0	42.6	40.3	Wkg Cap $ Mil	



1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	
3.21	.60	1.05	1.96	3.31	2.87	2.52	3.99	4.30	.64	2.38		EARN.
2.75	1.37½	1.00	1.50	2.50	3.00	3.00	3.00	3.00	3.00	*3.00		DIV.
	64.2	70.6	75.8	75.5	86.5	98.7	96.9	168.9	168.2	129.0	Wkg Cap $ Mil	

THE OHIO OIL COMPANY

BUSINESS: Company is a leading producer of crude oil, additionally operating two refineries located in Illinois and Wyoming. An extensive pipeline system controlled by the company simplifies transportation problems.

OUTLOOK: At the end of 1947, Ohio Oil operated 7,687 oil wells and 151 natural gas wells, besides owning an interest in more than 1,000 other wells operated by others. Net production of crude rose to record proportions, more than 33 million barrels last year, while gas sales also climbed to a peak of 8.59 trillion cubic feet. Higher prices for petroleum products, combined with increased production lifted consolidated volume to $130.7 million in 1947. Now that the railroads are rapidly converting from steam to diesel locomotives, that industry and aviation, farms, motorists and home owners are stepping up demand for oil products, the prospects for supply to catch up with demand are dimmed for years ahead. Ohio Oil Co. is well situated to make the most of its expanding opportunities and a sharp rise in earning power has enabled it to spend large sums in increasing capacity without going heavily into debt or increasing its capital. After allowing $10.7 million for depletion and depreciation last year, net income of $29.1 million equalled $4.44 per share compared with $2.78 for 1946. During the recent March quarter, volume was reported as $46 million and net income per share as $1.90. As the company has no preferred stock outstanding and can easily retire the remaining balance of $3 million funded debt maturing in 1949 and 1950, the outlook for its common shares is encouraging.

DIVIDENDS: Including two extras, 1947 dividends totalled $1.75 per share, and during the first half of 1948 the quarterly rate of 25 cents per share has been supplemented by extras aggregating 50 cents.

MARKET ACTION: Recent price of 41½ compares with a 1948 range of high—43, low—26⅜.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	December 31, 1940	1947 (000 omitted)	Change
Cash	$ 15,973	$ 14,799	—$ 1,174
Marketable Securities	1,013	16,154	+ 15,141
Receivables, net	5,900	16,201	+ 10,301
Inventories	14,774	14,293	— 481
TOTAL CURRENT ASSETS	37,660	61,447	+ 23,787
Plant and Equipment	263,666	298,401	+ 34,735
Less Depreciation	175,615	203,367	+ 27,752
Net Property	88,051	95,034	+ 6,983
Other Assets	7,308	7,292	— 16
TOTAL ASSETS	$133,019	$163,773	+$30,754
LIABILITIES			
Accounts Payable and Accruals	$ 3,536	$ 10,561	+$ 7,025
Reserve for Taxes	2,352	10,547	+ 8,195
TOTAL CURRENT LIABILITIES	5,888	21,108	+ 15,220
Long Term Debt	14,000	3,000	— 11,000
Capital	93,173	80,000	— 13,173
Surplus	19,722	59,576	+ 39,854
TOTAL LIABILITIES	$133,019	$163,773	+$30,754
WORKING CAPITAL	$ 31,772	$ 40,339	+$ 8,567
CURRENT RATIO	6.4	2.9	— 3.5

PULLMAN INCORPORATED

BUSINESS: Company is the largest builder of freight and passenger cars, and also owns a subsidiary outstanding in the engineering field, the M. W. Kellogg Company.

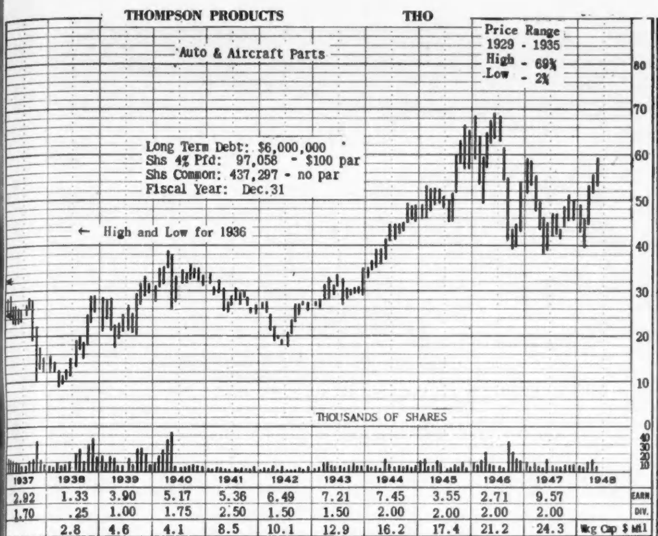
OUTLOOK: Now that Pullman Inc. has divested itself of its former sleeping car operations, its main activity has become more sensitive to fluctuations in general business. Under current conditions, however, when an abnormally large proportion of railroad rolling stock has passed the usual retirement age, the replacement demand has become so substantial that years will be required before the car builders can catch up with demand. Though critical shortages of materials and skilled labor restricted output last year, the company's car manufacturing subsidiary, Pullman-Standard Car Manufacturing Co., turned out 16,441 freight cars for domestic use, 6,640 for shipment abroad, 509 municipal vehicles and 337 passenger train cars. Total units exceeded those of any year since 1930, and 1947 sales volume soared to $197.5 million. Despite this impressive progress, backlog orders continued to mount until by the end of last March they aggregated $366 million. As orders continue to pour in, it seems certain that the company's car building activities will call for peak operations during the foreseeable future. The M. W. Kellog division, too, has large unfilled orders arising from the big expansion program of the oil industry.While net earnings of Pullman came to $2.38 per share in 1947, compared with $.64 for 1946, they could well rise to $4 per share in the current year, as mass production and easing of shortages widen profit margins. Due to the sale of the sleeping car division, the company has large liquid resources, some of which are being used to reduce outstanding capital stock.

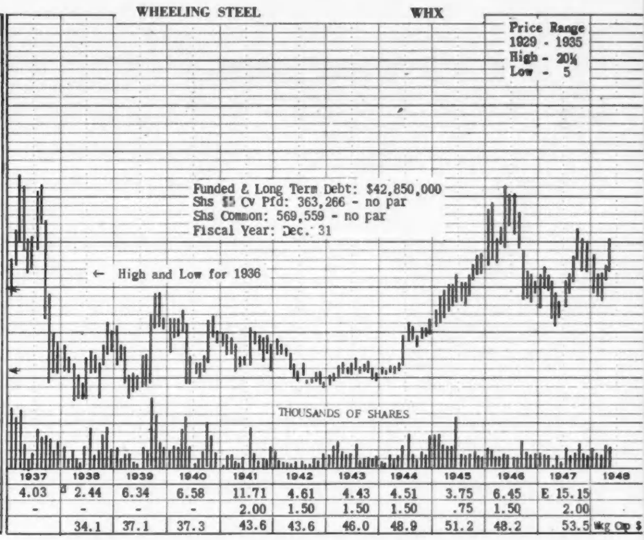
DIVIDENDS: Pullman Inc. has paid dividends without a break since 1867, distributing 50 cents quarterly since 1942, along with a year-end extra of $1 per share in 1947.

MARKET ACTION: Recent price of 44½ compares with a 1948 range of high—53, low—40⅛. On basis of last year dividends, the current price provides a yield of about 6¾%.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	December 31, 1940	1947 (000 omitted)	Change
Cash	$ 42,263	$ 19,393	—$22,870
Marketable Securities	9,700	17,378	+ 7,678
Receivables, net	10,496	19,764	+ 9,268
Inventories	22,673	92,395	+ 69,722
Other Current Assets	7,913	7,674	— 239
TOTAL CURRENT ASSETS	93,045	156,604	+ 63,559
Plant and Equipment	331,300	76,375	—254,925
Less Depreciation	204,713	42,865	—161,848
Net Property	126,587	33,510	— 93,077
Other Assets	13,269	6,436	— 6,833
TOTAL ASSETS	$232,901	$196,550	—$36,351
LIABILITIES			
Accounts Payable and Accruals	$ 11,468	$ 21,872	+$10,404
Reserve for Taxes	5,701	5,728	+ 27
TOTAL CURRENT LIABILITIES	17,169	27,600	+ 10,431
Reserves	6,122	4,616	— 1,506
Capital	152,813	106,337	— 46,476
Surplus	41,088	27,851	— 13,237
TOTAL LIABILITIES	$232,901	$196,550	—$36,351
WORKING CAPITAL	$ 75,876	$129,004	+$53,128
CURRENT RATIO	5.4	5.7	+ .3





THOMPSON PRODUCTS, INC.

BUSINESS: As a supplier of parts for the automotive and aircraft industries, Thompson Products has become strongly entrenched. Replacement sales also constitute an important factor.

OUTLOOK: The three main markets upon which the company depends exhibited great activity last year, absorbing $92.5 million of Thompson specialties for an all time high record in a year of peace. It would be hard to name an important manufacturer of automobiles, trucks, tractors, industrial and marine engines that does not buy precision parts from this concern. Prospects for well maintained business from all of these sources are exceptionally favorable. Equally bright is the outlook in the aircraft field, due to a new influx of military orders. Thompson ranks high as a producer of jet turbine parts, having pioneered in this field for more than ten years past, and most of the large aircraft concerns look to the company for a wide range of other parts. Operations of this concern have been uniformly profitable since 1932, with net earnings reaching a peak of $9.57 per share in 1947. For the past two years a substantial portion of earnings have been plowed back to modernize facilities, a program that is now beginning to bear fruit. The company's working capital of $24.3 million at the end of March 1948 was more than five times that of December 31, 1940, and a current ratio of 3.9 indicates a strong financial status. The capital structure is well balanced with only 437,297 shares of no par common outstanding, 97,058 shares of 4% $100 preferred and $6 million serial notes.

DIVIDENDS: No regular rate is employed, but dividends have been paid consistently since 1936. In 1947 three quarterly payments of 25 cents per share were supplemented by a year-end distribution of $1.25 for a total of $2 per share. Through June 15, 1948 dividends this year aggregated $1.75 per share, including an extra of $1 in January.

MARKET ACTION: Recent price of 54⅝ compares with a 1948 range of high—59½, low—39¾.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	Mar. 31, 1948 (000 omitted)	Change
ASSETS			
Cash	$ 857	$ 4,162	+$ 3,305
Receivables, net	2,813	9,117	+ 6,304
Inventories	6,448	19,576	+ 13,128
Other Current Assets	46	....	— 46
TOTAL CURRENT ASSETS	10,164	32,855	+ 22,691
Plant and Equipment	7,374	24,864	+ 17,490
Less Depreciation	2,116	9,268	+ 7,152
Net Property	5,258	15,596	+ 10,338
Other Assets	590	1,875	+ 1,285
TOTAL ASSETS	$16,012	$50,326	+$34,314
LIABILITIES			
Notes Payable	$ 2,900	$ 450	—$ 2,450
Accounts Payable and Accruals	1,246	5,009	+ 3,763
Reserve for Taxes	1,190	3,019	+ 1,829
Other Current Liabilities	648	....	— 648
TOTAL CURRENT LIABILITIES	5,984	8,478	+ 2,494
Long Term Debt	....	6,000	+ 6,000
Reserves	....	446	+ 446
Capital	5,827	19,809	+ 13,982
Surplus	4,126	15,590	+ 11,464
TOTAL LIABILITIES	$16,012	$50,326	+$34,314
WORKING CAPITAL	$ 4,180	$24,376	+$20,196
CURRENT RATIO	1.7	3.9	+ 2.2

WHEELING STEEL CORPORATION

BUSINESS: Company is one of the smaller steel producers specializing in lighter types, such as sheets, strips and tinplate. Fabrication of tanks, drums, pipe, boilers and galvanized metalware lends diversification to output.

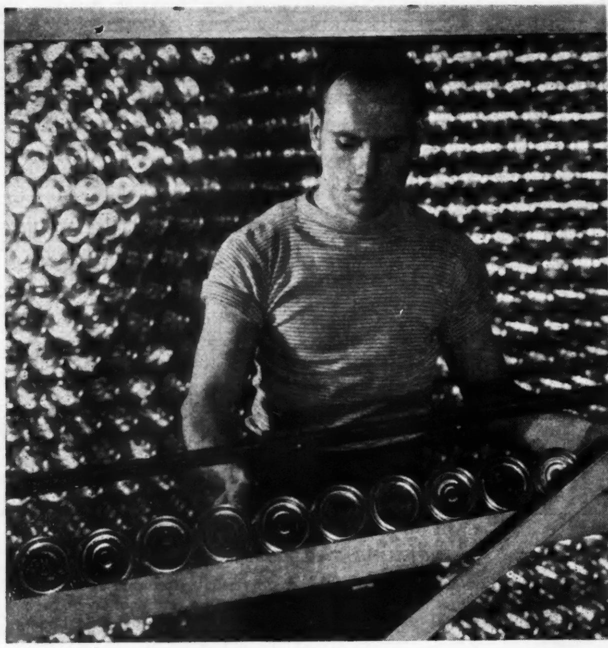
OUTLOOK: Due to widespread demand for practically all of Wheeling Steel's numerous products by major industries, the company's sales have trended upward for many years past. In 1947, volume reached $131.7 million for a peacetime record, and to judge from first quarter 1948 results, sales for the current year may equal or exceed the wartime peak of $143 million. This concern is strongly entrenched with customers in the automotive, building, container and metal fabricating industries where demand seems likely to prove large and stable for some time ahead. A favorable factor is the approaching completion of a modernization and expansion program involving more than $35 million. These expenditures should increase ingot capacity and tend to speed up production, thus benefit earnings potentials. Through retention of good earnings for several years past and the sale of $20 million 3¼% first mortgage bonds in 1947, the company's finances are in excellent shape to meet all prospective capital needs during the near future. The appended balance sheet data show that working capital has increased by $16.2 million since 1940 despite large outlays for fixed assets. Due to a relatively small common stock capitalization and substantial senior capital leverage, per share earnings have tended to rise rapidly in line with larger sales, reaching peak proportions of $15.15 per share in 1947, after establishment of a $2 million reserve for contingencies. First quarter net was $4.38 per share against $4.09 last year.

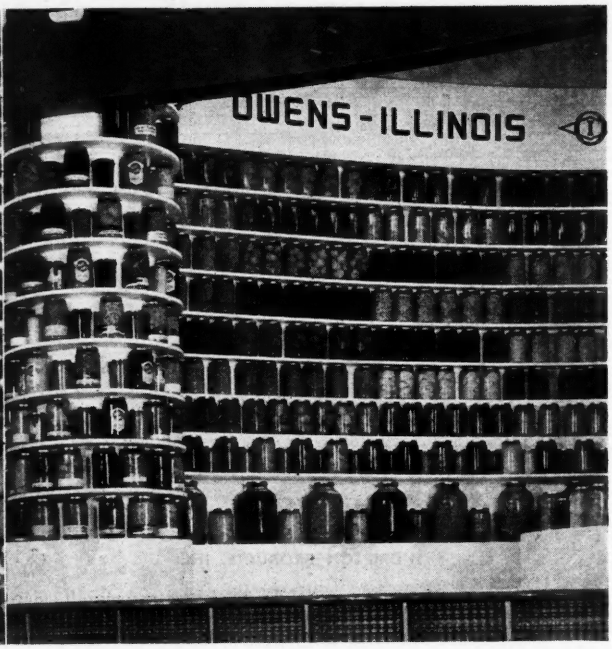
DIVIDENDS: Conservative policies have held recent quarterly distributions to 50 cents per share, but in view of exceptional earnings, additional disbursements are not impossible.

MARKET ACTION: Recent price of 55¼ marks a high for 1948, though the shares sold above 60 in 1937 and again in 1946. Low for the current year was 37, evidence of considerable volatility.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 2,215	$ 3,719	+$ 1,504
Marketable Securities	300	17,978	+ 17,678
Receivables, net	9,840	8,734	— 1,106
Inventories	36,926	34,097	— 2,829
Other Current Assets	....	112	+ 112
TOTAL CURRENT ASSETS	49,281	64,640	+ 15,359
Plant and Equipment	130,028	129,639	— 389
Less Depreciation	54,513	61,348	+ 6,835
Net Property	75,515	68,291	— 7,224
Other Assets	5,269	25,556	+ 20,287
TOTAL ASSETS	$130,065	$158,487	+$28,422
LIABILITIES			
Notes Payable	$ 2,000	....	—$ 2,000
Accounts Payable and Accruals	6,983	10,934	+ 3,951
Reserve for Taxes	1,625	8,290	+ 6,665
Other Current Liabilities	1,374	112	— 1,262
TOTAL CURRENT LIABILITIES	11,982	11,068	— 914
Long Term Debt	30,800	42,850	+ 12,050
Reserves	2,064	3,999	+ 1,935
Capital	67,127	64,794	— 2,333
Surplus	18,845	35,775	+ 16,930
TOTAL LIABILITIES	$130,065	$158,487	+$28,422
WORKING CAPITAL	$ 37,299	$ 53,572	+$16,273
CURRENT RATIO	3.8	4.9	+ 1.1





Battle of Containers—Metal vs. Glass

By WARREN BEECHER

It would be difficult to name two products in more aggressive competition than containers made of metal and glass. For years past the battle has been ceaseless, with first one contender and then the other encroaching on hard won markets, sometimes with temporary success and now and then with enforced withdrawals.

Despite this competitive strife, or perhaps because of it, both classes of container manufacturers have steadily progressed as research and an expanding economy have broadened their base of operations. Since the war, however, circumstances have tipped the scales in favor of the can manufacturers, a fact that has found reflection in the earnings and share prices of glass container makers.

World War II provided a golden opportunity for the manufacturers of glass jars and bottles to exploit a wide range of potential customers formerly on the books of the tin can producers. The Japanese capture of all tin mines in the Far East, combined with record military demand for this essential metal, created a scarcity that made it well nigh impossible for the can makers to serve many of their regular clients.

In contrast, an ample supply of the materials required for glass put this industry in a position to step right into the breach, with the consequence that sales rose to all-time peak proportions, though price ceilings, rising costs and heavy taxes restricted profits. Due to continued scarcity of tin and steel in 1946, the can manufacturers were still unable to get fully back into their normal stride, but last year found them regaining much lost ground, with volume of the leading concerns pushing to encouraging heights and net earnings developing a sharp upturn. In the face of such competition, volume and earnings of many producers of glass containers rather naturally had to give way, and this trend seems still continuing, although before very long it is likely to level off at a point considerably above prewar. Over the longer term, furthermore, it appears fairly certain that ample room will exist for sustained growth by the leading manufacturers of both glass and tin containers.

Competitive Aspects

The pros and cons of current competition between the two forms of containers have much of interest in appraising the situation. Let's examine the tin can industry first. Although a sizable carry-over of canned food products has somewhat restricted demand for metal containers from that field in recent months, promising crop outlook and well sustained orders for ready prepared foods seem likely to accelerate the business of the can manufacturers during the rest of 1948. During war years about 80% of can output had to go to food packers, but now it looks as if the available supply will be sufficient to allot about 50% each to processors of food and non-food items.

This was about the proportion characteristic of prewar years. Heavy demand from the paint industry, along with steadily increasing use of tin containers for petroleum and wax products is an encouraging factor. Then the brewers once more are

Pertinent Statistical Data on Metal and Glass Container Companies

	1936-39 Highest	1942-45 Average	1946	1947	Interim 1948		Div. 1947	Div. Yield	Recent Price	Price-Earning Ratio
American Can	$6.22	$4.19	$2.40	$6.65		———	$3.00	3.4%	$89	13.4
Continental Can	3.17	1.89	1.96	3.88	$4.29	12 mos. Mar. 31	1.25	3.3	38	9.8
Anchor-Hocking Glass	1.65	2.22	6.12	4.02	2.63	12 mos. Mar. 31	2.00	6.5	31	7.7
Hazel-Atlas Glass	1.33	1.41	2.68	1.83	1.30	12 mos. Mar. 31	1.40	6.4	22	12.0
Owens-Illinois Glass	3.80	3.44	4.54	4.60	3.19	12 mos. Mar. 31	3.00	4.8	63	13.7
Crown Cork & Seal	1.83a	2.68a	2.10a	3.00a	1.21a	Mar. 31 quar.	.80a	3.1	26	8.7

a—Adjusted

turning to cans on a broad scale, rather than glass bottles, because of savings in transportation costs. Increased demand from this latter source last year importantly aided the industry's gain of 77% in output of non-food metal containers. All said, it looks as if the makers of metal containers will find sales a minor problem during the balance of the current year.

Outlook for Can Makers

As for production potentials, the can manufacturers are facing prospects for a larger supply of steel sheets this year, unless the defense program or ERP bring a change in the picture. More serious, though, is the recent continuation of Government controls over tin until June 30, 1949. Urgent stockpiling needs have resulted in Conservation Order M-81, which as a result of recent amendments now specifies the amount of tin that may be used in more than 200 products. Henceforth no more than 75% of the tinplate used in 1947 for pet food cans will be permissable. Then no increase will be allowed in the production of beer cans this year, and the output of metal containers for coffee and oil must be held to definite limits.

Since the production of tin in both South America and the Far East is substantially increasing, it is possible that the restrictions may be eased later on, but for the time being they are quite onerous. The can manufacturers, though, have learned new methods of electroplating that require less tin, and while volume gains may be less than earlier hoped for, it is quite possible that overall results will at least match those of 1947. A high degree of mechanization and firmer prices favor the earnings outlook in the can industry, and little change can be expected in its traditional above-average stability.

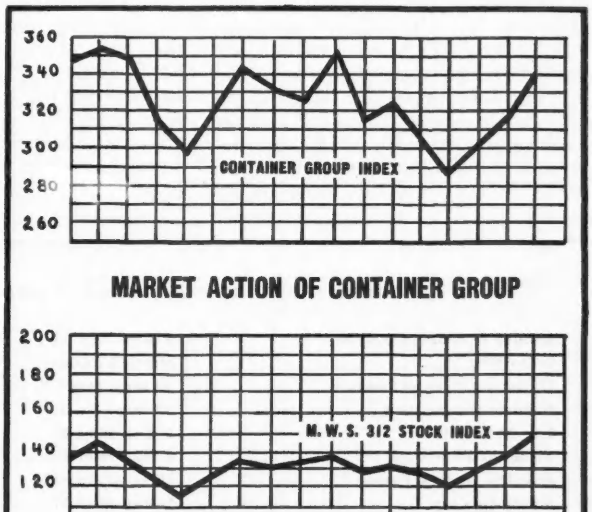
The Glass Container Manufacturers

Glass containers in the current competitive arena have been losing ground for a good many months past, although the tight tin situation may soon reverse the trend. In 1947, glass container shipments to the canners dropped 20% and during the first quarter this year, volume and earnings of several concerns in this industry were downward compared with a year earlier. In contrast to wartime when glass made heavy inroads into tin, producers of coffee, beer, and lard have again been returning to their old favorites, metal containers. On the other hand, the introduction of square milk bottles has affected glass manufacturers favorably, even in the face of heavy competition from paper containers.

Last year, too, a record number of bottles were purchased by soft drink manufacturers. More than 10 million gross of glass bottles were bought by this industry in 1947 and the uptrend in demand is reported as continuing in the current year. As for beer bottles, their makers are all set for a strong campaign to challenge recent progress made by tin cans, the idea being to promote the sale of disposable bottles that the consumer can throw away rather than return for the sake of a few pennies. In 1947, the brewers used about 1.9 million bottles and 2.1 million tin cans, so that if the restrictions upon tin cause problems, the glass industry might regain the lead.

Glass vs. Metal

During the current readjustment of competitive conditions, it should be realized that for many purposes glass has permanent advantages that over the longer term assure the industry of considerable stability. Normally, containers for food account for about 35% of production, with producers of medicinals, chemicals and toiletries absorbing the next largest share. Then most of the glass container manufacturers do a large business in low-priced glassware sold by depart- (*Please turn to page* 358)



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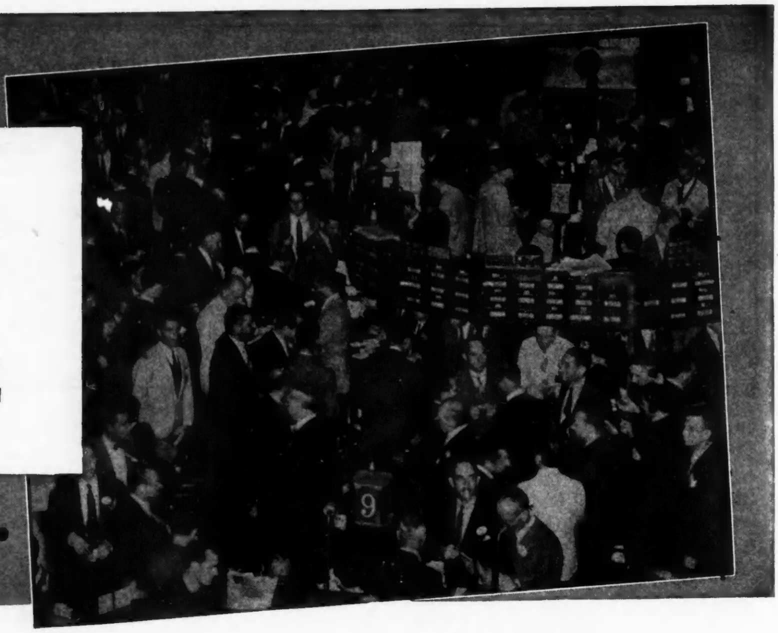


Hopeful

Compared with where they stood just after a "Dow Theory" bull-market signal was given in the middle of May, the industrial average is up a trifle, as we write, the rail average down a trifle. The absence of significant market progress for this fairly long interval is perhaps excusable on two counts: (1) the sharpness of the March-May rise; and (2) the fairly consistent market habit, in Presidential years, of pausing or reacting a bit during the several weeks just prior to Republican nominating conventions. However, if this is really a bull market, it will get going again pretty soon. This column can see no excuse for a poor performance during July, since the June stand-off should have provided ample technical correction. If you demand a hard-and-fast prediction here, it is that July will be an up month.

The Rails

The performance of the rails over the last five weeks or so has worried some market analysts, on the reasoning that there may be something the matter with the market unless both rails and industrials are moving up. Actually, in previous bull markets, there have been intervals of months in which rails got nowhere, while industrials advanced sharply. All that is required is that the rails do not go into a downtrend. In the present situation, the following facts are pertinent: (1) From bear-market low to high to date the rail average was up about 51% against less than 18% for the industrial average, while the rise from this year's low to high was 29% for rails, against 16% for industrials. (2) There are not only bigger speculative profits now available in rails than in most industrials, but also more plausible reasons for cashing them. The Government is driving, with considerable success, to recapture large sums in alleged over-payments made by it to the rails for wartime freight and troop movements. Moreover, now that the railroads have had three rate boosts from the ICC since last October, the next thing is for some of the benefit to be washed out as inflation continues to push operating costs upward. (3) In their worst recent set-back the rails had given up only about a fourth of this year's rise, and that was followed by a fair rebound. As we write, the rail average is only about 1 point under its bull-market high. To sum up, this column is not too much concerned over what has been going on in the rail section of the market.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Bangor & Aroostook R. R.	5 mos. May 31	$10.73	$6.37
Brillo Mfg.	March 31 quar.	.62	.33
California Oregon Power	12 mos. May 31	2.44	1.74
El Paso Natural Gas	12 mos. April 30	6.01	4.16
Erie Railroad	5 mos. May 31	1.43	.53
Hiram Walker-G. & W.	9 mos. May 31	7.57	6.36
Houston Light & Power	12 mos. May 31	3.45	2.50
Masonite Corp.	9 mos. May 31	8.53	5.07
Reynolds Spring	6 mos. March 31	.90	.68
Wyandotte Worsted	6 mos. May 31	1.12	.46

Inflation Hedges

The Government's cost-of-living index spurted to a new all-time high in April, making the prewar dollar worth 59 cents in purchasing value. It is less than that now; for since April, and especially during June, prices of many things have gone up considerably. There is scant prospect that the Government will stop inflation, which requires a positively and vigorously deflationary credit policy, until some time in 1949 at the earliest. Henee, there is rising investment interest in "inflation-hedge" stocks. Of

course, none of them can give you guaranteed protection. Assuming that you buy the best qualified stocks, what next? In a complete inflation, like that now going on in China, you do not "take profits" unless you are crazy. You hold tangible assets until their values are expressed in a new currency, at which time you probably will have had some loss, though much less than bondholders. In a limited inflation, such as this one almost certainly will be, you have to take your profit in inflation-hedge stocks fairly near the top or see much of it, maybe all of it, wiped out in the ensuing deflation, when they will act pretty much like any other common stocks. The top in the market might come weeks or months ahead of that in commodity prices, and prior to any news about a deflationary change in Government policy. There can be nothing easy or simple about an inflation-hedge program.

Extraction Industries

Stocks in the extractive industries, with the exception of gold mining, are by long tradition the most favored inflation-hedge equities. Oils and non-ferrous metals are, if anything, better suited to the purpose than they have usually been in the past. The reason is that economic growth has tended to outrun basic supply of oil, copper, lead and zinc. Thus a fundamentally altered supply-demand situation, as well as the inflation factor, is working in behalf of these stocks and will continue to do so as far ahead as anyone can figure.

Gold Stocks

Gold stocks are generally going down or standing still, for gold-mining companies have to sell their product at a fixed price ($35 an ounce) while inflation is pushing up their costs. The gold company, or the individual holder of gold, benefits only if the currency is revalued. The chances are that this inflation will run its course without any change in the gold value of the dollar. Revaluation would be more likely under extreme depression conditions, which are not now foreseeable. Placer gold, claimed to be 80%-90% pure, has been advertised for sale in New York City recently at the equivalent of $40-$42 an ounce for refined gold; and can be legally held in this raw form. It is a hedge only against revaluation of the dollar, gives no return of course, and in fact will cost you something to store; and will yield profit only if the dollar is ultimately revalued to a gold value exceeding the rate of $40-$42 an ounce.

Paper

Paper manufacturers who own or control sources of pulp supply fare among the best under inflation. The stocks rate a place in any inclusive list of inflation-hedges. International Paper and Kimberly-Clark, to name only two of many, can qualify. Like oils and non-ferrous metals, but to a lesser extent, here is another industry in which basic demand has tended to catch up with capacity. This is to say that the over-capacity of prewar will not be seen again, due to the much higher postwar level of population and business activity. However, the normal postwar conditions in paper—after inflationary activity has subsided—will be more competitive than in oil or metals.

Speaking of Oils

Speaking of oils, crude oil is currently selling at sharp premiums over posted prices. It will not be surprising if posted prices are raised again, and very substantially, at almost any time, despite the opposition of some big companies. As it is now, profits of the industry for 1948 figure to average about 50% above last year's record level. They are plenty fat, yet will be even fatter when prices on crude and refined products are hiked up again.

Otis Elevator

In the elevator business Otis Elevator ranks as would a combination of General Motors and Chrysler in automobiles. In short, it tops its field like a circus tent. Otis thrived over the decades, and especially the 1920's, when the skyscrapers and the tall apartment houses were going up. It had lean pickings during the New Deal 1930's and during the war. Now things are humming for Otis again. Elevator-using apartment houses are going up; and even some skyscrapers here and there. Escalators figure prominently in the modernization programs of many big retail stores. Repair service has always been an important and relatively steady source of income; and every new elevator or escalator installation adds to this potential. Otis has paid some dividends each year since 1903. There is only a small preferred issue ahead of the 2,000,000 shares of common. Finances are strong. Earnings last year were $3.41 a share, the largest in many years, and should better that by something like 50% to 60% this year. Dividends could well be over double 1947's $1.35 a share. Around 36, high for the year up to this writing, the stock looks attractive for semi-conservative accounts.

Addressograph

Addressograph - Multigraph Corporation is one of the best-situated companies in the office equipment field. Its specialized line of machines meets less effective competition than makers of accounting machines and typewriters encounter; with the result that profit margins are good. The present management is considered able and aggressive. Quite aside from large order backlogs, which are common to the office machinery industry, it is believed

(Please turn to page 357)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Allied Stores	12 mos. April 30	$6.20	$7.41
Caterpillar Tractor	5 mos. May 31	.53	1.44
Chesapeake & Ohio Rwy.	5 mos. May 31	1.14	2.14
Commonwealth & Southern	12 mos. May 31	.59	.71
Consolidated Textile	9 mos. May 29	3.95	4.10
Dayton Rubber	6 mos. April 30	.45	2.31
Detroit Edison	12 mos. May 31	1.47	1.66
Remington Rand	Year March 31	3.42	3.56
Singer Mfg.	Year Dec. 31*	15.23*	16.92*
U. S. Smelting & Ref.	5 mos. May 31	1.39	2.21

*—For 1947 and 1946.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

La Consolidada, Inc. S.A.

Please advise recent sales volume and net profit of La Consolidada, S.A.
E.C., New Haven, Conn.

La Consolidada S.A., leading Mexican manufacturer of steel products and copper wire and cable, reports consolidated net income for the year ended December 31, 1947, before provision for the 8% dividend tax, of $1,136,294 as compared with $1,243,389 for 1946. After provision for preferred dividends and for the 8% dividend tax, earnings were equal to $2.07 per common share as compared with $2.28 in 1946. Sales in 1947 amounted to $11,341,502 against $10,003,709 in the previous year. All Mexican peso figures have been converted into dolars at the exchange rate of 4.85 pesos to the dollar. Earnings on the 6% preferred stock, which is listed on the New York Stock Exchange, amounted to $6.43 per share in 1947, compared to $6.97 in 1946. Consolidated balance sheet as of December 31, 1947 (in U. S. dollars) showed total current assets of $5,417,901, total current liabilities of $3,903,914, leaving net current assets of $1,513,987.

May Department Stores

Please advise annual sales volume, recent earnings and inventory position of May Department Stores.
L. H., Hartford, Conn.

Consolidated net sales of the May Department Stores and subsidiaries for the year ended January 31, 1948, were the largest in the company's history, amounting to $358,013,576. This is an increase of $27,681,708 over the previous peak volume of $330,331,868 for the year ended January 31, 1947.

Consolidated net profit after taxes was $17,231,481, equal after payment of preferred dividends to $5.94 per share on the average number of shares of common stock outstanding during the year, compared with $18,653,570, or $7.05 per share for the preceding year.

Earnings as reported above were adjusted to the last in—first out inventory valuation basis under the 1947 ruling of the United States Tax Court that the LIFO method was available to retailers. The earnings per share on the common stock for the years ended January 31, 1948 and 1947 on a first in—first out basis (after deducting $1,533,428, as provision for inventories and commitments during the year ended January 31, 1947), would have amounted to $6.83 and $7.12 respectively. The company has requested a ruling from the Commissioner of Internal Revenue as to its right to value inventories on the LIFO basis for the fiscal year ended January 31, 1942 and subsequent years.

Adjusted to LIFO, inventories at January 31, 1948, were $36,232,126 compared with $37,355,874 a year earlier. The balance sheet showed holdings of cash and government securities amounting to $37,193,926 against $21,975,854 at the end of the previous year. Working capital amounted to $77,312,618 with a ratio of current assets to current liabilities of 3.20.

The company's expansion program includes enlargening the Baltimore store by approximately 68,000 square feet of space which is to be available for use before the end of this fiscal year. The enlargement of the Akron store has been completed and there is now under construction a new branch store in the St. Louis area which is expected to be open for business late this year.

The payment of dividends of $3.00 per share on the common stock during 1947 continued the company's unbroken record of quarterly dividends paid since incorporation 38 years ago.

Froedtert Grain & Malting Company

Please report capitalization, earnings and dividends of Froedtert Grain & Malting Company.
B. E., Grand Forks, No. Dak.

Froedtert Grain & Malting Company, Inc., had net income after taxes of $1,073,378 equal to $1.18 per common share for the nine months ended April 30, 1948, according to its interim earnings statement released recently. The company's net income after taxes for the 12 months ended April 30, was $1,403,471.

Net sales for the nine-months period ended April 30, 1948 amounted to $31,246,163 and to $40,066,661 for the 12-month period ended April 30, 1948.

Business was incorporaed in 1888. Company manufactures malt at Greenfield, Milwaukee, Winona, Minnesota and Detroit. Malt used to be thought of chiefly as an ingredient in beer but it has long been used in the manufacture of other beverages, foods, syrups, medicinal products, etc.

Capitalization consists of long-term debt of $3,500,000 due in 1965, 36,154 shares of $2.20 preferred and 853,547 common shares.

Keeping Abreast of Industrial and Company News

According to J. D. Biggers, president of **Libbey-Owens-Ford Glass Company,** flat glass production stands at an all time high, reflecting the demand for more glass in homes and automobiles. He predicts that the modern trend in store fronts, factories, and office buildings will continue to extend the demand for glass above pre-war levels for some time to come.

The woolen branch of the **textile industry** has embared upon a four-year international research project to determine wool fiber's basic properties and widen markets here and abroad. The project will seek to meet demand for better quality wools by "up-grading" fibers.

There is nothing incompatible or antagonistic between big and little business, states H. B. du Pont, vice president of **E. I. du Pont de Nemours & Co.** He calls attention to the fact that the costly nylon development could not have been undertaken by a small business; while the distribution and sales work done by small businesses was indispensable to the success of nylon.

Although expecting a decline of 25% in the production of radio receiving sets for this year, M. F. Balcom, president of the **Radio Manufacturers Association,** foresees a big increase in video sets. He reports that there are 27 television stations currently broadcasting to the public and expects 42 additional ones by the end of the year.

Baltimore & Ohio Railroad's diesel fleet will be practically doubled this year. R. B. White, president, announces that the company expects delivery of 160 new diesel-electric locomotives during 1948, 100 of which will be used for switching purposes and 60 for road freight service. By the beginning of next year, nearly 15% of the company's total motive power will be diesel-electric.

The flour milling industry's largest automatic packaging system has been installed by the **St. Regis Paper Co.** in the **National Biscuit's** mill at Toledo. The new system is capable of dropping 24 bags of 100 pounds each per minute on a single conveyor belt. By this means the entire output of the mill, the biggest in the world, can be packaged in 12 to 14 hours.

Norfolk & Western Railway has awarded a contract to a subsidiary of **United States Steel Corp.** for the construction of 1,000 seventy-ton all-steel hopper cars. The road has 3,000 similar cars under construction in its Roanoke shops. When both orders are completed, N. & W. will own over 52,000 coal carrying cars.

The biggest and fastest bulk cargo ship on the Great Lakes will be built in the Lorain, Ohio, yards of **American Shipbuilding Co.** Construction is scheduled to begin at once. Stating that this is the first new freighter construction for the Great Lakes since 1942, company officials expect the ore carrier will be ready before the opening of the 1950 navigation season.

An all-electronic elevator signal system, believed to be the first major application of electronics to elevator control, has been installed in the new Universal Pictures Building at 445 Park Ave., New York City, by **the Otis Elevator Company.** The new system reduces the amount of electric wiring and eliminates many relays formerly used.

Eastman Kodak Company points out the fact that the first Kodak camera was introduced sixty years ago this month. It was an oblong box which took small, round pictures two and one-half inches in diameter, and was ready-loaded for 100 exposures. Both camera and film sold for $25, which is about four times the current cost of a good box camera.

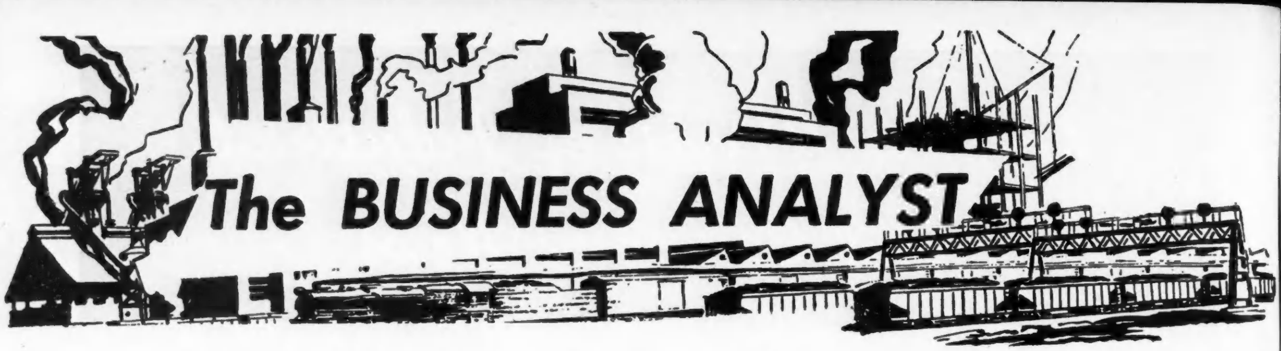
An entirely new and improved line of 100-pound brass globe and gate valves has been developed by the **Crane Company.** These may be used for either household piping installations or for low pressure equipment applications.

A total of 131,346 **new dwelling units** financed and built under the various programs of the Federal Housing Administration was placed under construction during the first five months of this year. This is nearly two and a quarter times the 58,864 units started under FHA inspection during the first five months of last year.

Zenith Radio Corporation has completed negotiations with **Farnsworth Television & Radio Corp.,** by which Zenith acquired paid-up rights to build home television receivers under all Farnsworth's patents and pending patents for the entire life of the patents concerned. Zenith has also announced a new television development called phone-vision.

A process for the automatic extraction of eggs from their shells, and the separation of the contents of each egg, with the yolk intact, has been acquired by **Wilson & Co.** This will facilitate inspecting, testing, and ultimate disposition of eggs.

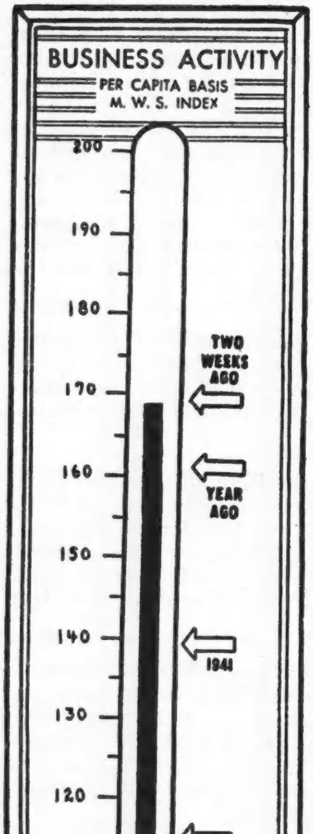
United States Rubber Company has developed an electric heater to be used in refrigerators for the prevention of moisture condensation. Stating that continued moisture will cause enamel to deteriorate, the company claims that the use of the heater will prevent this.



What's Ahead for Business?

By E. K. A.

John L. Lewis and the soft coal operators finally came to terms on a new wage contract and to all intents and purposes, this removes the threat of another coal strike this year. It was a most serious threat, since industry has hardly had sufficient time to replenish coal stocks since the last tie-up. Thus steel makers, the automobile industry and countless other steel consuming industries are breathing easier. By the same token, avoidance of another coal walk-out permits full emphasis of present favorable business and industrial developments. These are acknowledged even by the conservative Federal Reserve Board who finds business so good that it is difficult to find weak spots.



Important question now is: What increase in coal prices? As this is being written, there is talk of the new agreement giving coal miners a $1 a day wage boost and a $100 million a year welfare pension fund, the latter meaning an increase from 10c to 20c per ton in royalty payments to the welfare fund. These figures may not be the final ones, but whatever will ultimately be agreed upon spells higher coal prices, and higher steel prices.

Steel the Key to Production

Just as steel prices hold the key to the price structure of numerous manufactured goods, so does availability of steel hold the key to future production. Even with the danger of a coal strike removed, steel users are developing a case of jitters fearing that impending steel allocations and priorities may substantially reduce the amount of "free tonnage" in the steel market after providing for defense, European recovery and home priority requirements. The last minute action of Congress, granting to President Truman the right to allocate steel for defense, apparently took many by surprise, and steel users are now wondering what it will mean to them in terms of definite allocations. Chances are they will soon know as the allocation program is set to go into high gear. Manufacturers holding defense orders will have first call for 100% coverage of requirements; others will have to divide what's left.

New Inflationary Upsurge

Even the Government now acknowledges the fact that a new inflationary upsurge is underway. Evidence of it has been accumulating fast and furious, and it is clear that the third round wage drive, initiatially thought to hold within narrow bounds, will lead to another full turn of the wage-price spiral. Witness the numerous price increases lately announced on manufactured goods including virtually all makes of automobiles, some types of electrical goods, trucks, tractors, etc. Witness also the significant reversal of General Electric in its lower price policy. The wage movement has defeated the lower price movement, and while industry may feel satisfied that sales for some time won't drop off seriously despite higher prices, the new development is bound to strenghten the boom-bust philosophy.

But any bust is likely to be still far off, the inflationary boom to continue for perhaps a considerable period. With the first quarter hesitancy in business ended, demand once again is running ahead of supply as prices renew their upward march. Fortunately, so far, there are no indications of another inventory buying spree. Though businessmen are again worrying about "inflation," they are loath to jump to extreme conclusions and what's more, they find that their former attitude of caution on the whole has paid off well.

Also, what happens to steel and coal prices holds the key to the extent of further industrial price inflation, and this still remains to be seen. An attitude of caution and watchful waiting appears prevalent, with a good deal of attention focused on the future trend of farm commodity prices.

Revival of Competition

While there is a good deal of talk about inflation, there is no minimizing the fact that increasing competition is developing in many industries for market supremacy. This is true particularly of the soft goods industries, the direct outgrowth of the emergence of buyers' markets in virtually all lines. It calls for a reappraisal of the prospects of a good many manufacturers in these fields: Sales gains made when producers were "selling shortages" rather than customers are neither too significant nor permanent. For today's sales represent the customers' choice, not his shortage-enforced option.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—Prices for common stocks, outstanding high grade preferred issues and Government bonds have been rising since March when the Treasury refused to sanction an increase in its $1\frac{1}{8}\%$ borrowing rate on one-year certificates; though common stocks reacted a bit during the past fortnight in a dull market. Market for new equity financing has broadened in consonance with the rising stock averages; but new issues of high grade preferred stocks must still be offered on an abnormally high yield basis. Thus far the raising of reserve requirements at New York City and Chicago has had little effect upon rates charged for prime commercial loans up to 90 days; though charges have been raised a little on advances to borrowers of lower credit rating. June will witness a retirement of $538 million of the national debt. The Treasury expects to end the 1948 fiscal year with a budget surplus of more than $7 billion; but next year might bring a deficit.

TRADE—Department store sales in the fortnight ended June 12 were 2% under the like period last year, compared with a cumulative gain of 6% in dollar total for the year to date. For the first quarter, sales were up 5%; yet profits per dollar of sales shrank to 3.8 cents, from 4.2 cents a year earlier; because costs rose faster than sales. Now that Congress has restored most of the House cut in the foreign aid program, EAC shipments should soon perk up. In April they amounted to only 0.9% of our total exports.

INDUSTRY—Strikes, floods and closing of some plants for repairs caused a fractional decline in business activity during the fortnight ended June 12, to a level 5.5% above last year; but the wage-price spiral continues to soar blythely skyward at the rate of 10% a year. Fueling the inflation are stepped-up Government spending and a 10% expansion in capital formation. Expenditures for new construction this year are now expected to top last year by 17%. Corporate net working capital increased nearly 10% last year. Corporate net earnings during the first quarter were about 27% ahead of the like period last year. Largest percentage increases were shown by aviation, petroleum and floor covering. A few industries, notably dairy products and liquor, reported decreases.

COMMODITIES—Commodity price indexes, spot and futures, have continued to advance since our last issue; though at a slackened pace. Wheat and cotton were off a little.

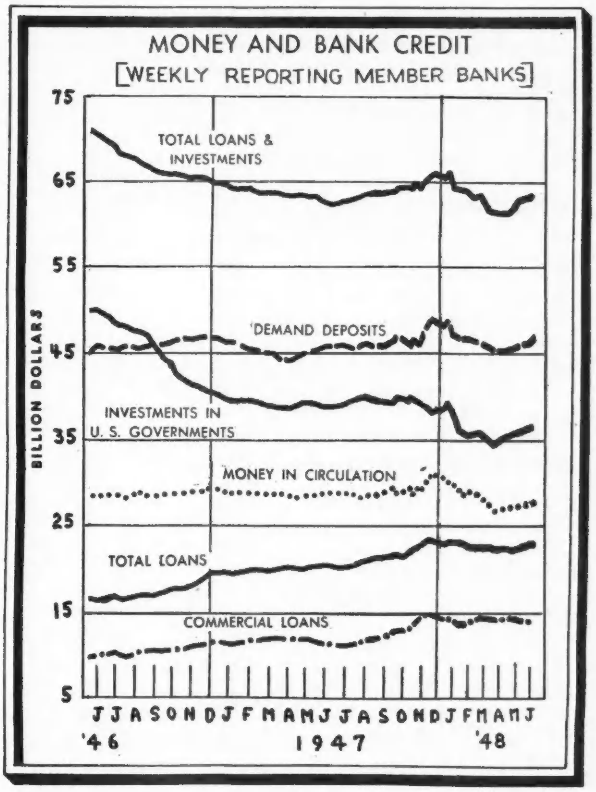
Business Activity declined fractionally during the fortnight ended June 12, to a level 5.5% above last year at this time. Strikes, floods and temporary closing of a few plants for repairs were mainly responsible. For the month of May, this Publication's index of the physical volume of business activity rose to 189.3% of the 1935-9 average, from 184.6 in April. For May, last year, it was 177.6. On a per capita basis, our business index for May was 168.4% of the 1935-9 average, compared with 164.4 in April and 160.2 for May, 1947.

* * *

Department Store Sales in the fortnight ended June 12 slipped to 2% below last year, compared with a cumulative gain of 6% in dollar total for the year to date. Sales during the first quarter were up 5%; yet profits per dollar of sales shrank to 3.8 cents, from 4.2 cents a year earlier; because costs rose faster than sales.

* * *

For industry as a whole, however, **Profits** per dollar of sales



were up about 2%. Sales rose 25%, while costs advanced only 23%; so that aggregate net profits for the first quarter were about 27% larger than for the corresponding period last year. Among individual industries, the biggest percentage rise in profits, 520%, was reported by aviation; followed by petroleum, 110%; and floor coverings, 100%. Several industries, on the other hand, suffered sizeable declines in earnings. Severest drops were for dairy products, 80%; and liquor, 51%.

* * *

The SEC reports that **Net Working Capital** of all U. S. corporations reached a record high of $61.8 billion at the end of last year—$5.3 billion above 1946.

* * *

Present indications are that business, employment and profits will continue at a high level for the remainder of the year. Of course, **Profits,** which are the best single indicator of over-all business conditions, vary widely from one industry to another, even during periods of general prosperity; but the outlook remains bright for a considerably above average level of earnings for some months to come. Our forecast is based upon propitious prospects for the three main contributors to aggregate business profits before taxes—capital formation, government spending and changes in the price level.

* * *

Capital Formation (domestic expenditures for plant and equipment, plus net exports) for the first quarter of 1948 was at an annual rate of $40.2 billion—10% ahead of the like

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	May	1.04	1.01	1.33	1.55
Cumulative from mid-1940	May	368.1	367.1	355.0	13.8
FEDERAL GROSS DEBT—$b	June 16	251.4	251.8	257.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	June 9	47.0	46.6	46.6	26.1
Currency in Circulation	June 16	27.8	27.9	28.2	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	June 9	8.60	8.55	3.38	4.26
93 Other Centers—$b	June 9	12.19	12.17	11.01	7.60
PERSONAL INCOMES—$b (cd3)	April	209.1	207.7	189.4	102.0
Salaries and Wages	April	127.6	128.2	117.7	66.2
Proprietors' Incomes	April	53.7	51.5	46.5	22.8
Interest and Dividends	April	16.1	16.0	14.3	10.0
Transfer Payments	April	11.7	12.0	10.9	3.0
(INCOME FROM AGRICULTURE)	April	24.5	22.9	21.1	10.1
CIVILIAN EMPLOYMENT—m (cb)	April	58.3	57.3	56.7	51.8
Agricultural Employment (cb)	April	7.4	6.8	7.9	8.8
Employees, Manufacturing (lb)	April	15.5	15.9	15.4	13.8
Employees, Government (lb)	April	5.4	5.4	5.4	4.6
UNEMPLOYMENT—m (cb)	April	2.2	2.4	2.4	3.8
FACTORY EMPLOYMENT (1b4)	April	153	157	153	47
Durable Goods	April	181	183	181	175
Non-Durable Goods	April	131	136	131	123
FACTORY PAYROLLS (1b4)	March	349	345	314	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	April	40.0	40.3	40.0	40.3
Hourly Wage (cents)	April	129.0	129.1	118.6	78.1
Weekly Wage ($)	April	51.56	52.07	47.50	32.79
PRICES—Wholesale (1b2)	June 12	164.9	164.2	147.6	92.5
Retail (cdlb)	March	188.6	189.0	177.2	116.2
COST OF LIVING (1b3)	April 15	169.3	166.9	156.2	110.2
Food	April 15	202.9	202.3	188.0	113.1
Clothing	April 15	196.4	196.3	184.9	113.8
Rent	April 15	116.3	116.3	109.0	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	April	10.52	10.60	9.44	4.72
Durable Goods	April	2.79	2.64	2.29	1.14
Non-Durable Goods	April	7.73	7.96	7.15	3.58
Dep't Store Sales (mrb)	April	0.80	0.84	0.76	0.49
Retail Sales Credit, End Mo. (rb2)	April	6.40	6.25	4.59	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	April	245	257	241	181
Durable Goods	April	296	314	279	221
Non-Durable Goods	April	214	223	219	157
Shipments (cd2)—Total	April	321	327	299	184
Durable Goods	April	350	365	326	223
Non-Durable Goods	April	306	306	269	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	April	51.5	51.6	44.6	26.7
Manufacturers'	April	29.1	29.1	25.8	15.2
Wholesalers'	April	8.1	8.2	6.8	4.3
Retailers'	April	14.3	14.3	12.0	7.2
Dept. Store Stocks (mrb)	April	2.41	2.37	2.06	1.4
BUSINESS ACTIVITY—1—pc	June 12	169.1	169.1	162.0	141.8
(M. W. S.)—1—np	June 12	190.9	190.9	179.9	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 353)

period last year. A joint survey by the Commerce Department and the SEC indicates that an even greater rate of expansion is indicated for the remainder of the current calendar year. * * *

Owing to heavy military and ECA outlays, the **Gap** between Government receipts and expenditures in calendar year 1948 will be much smaller than last year. Administration officials, possibly piqued by the Congressional reduction of income taxes over the President's veto, have been talking about a deficit for fiscal 1949; while Senator Byrd, who favored tax reductions and is regarded as an expert on Government finance, thinks there may be a small surplus. * * *

The general **Price Level,** mainly for reasons outlined in the two preceding paragraphs, will probably stage a sizeable advance this year. Wholesale prices have risen more than 11% in the past 12 months; but this has not yet been fully reflected in retail prices and the consumers' price index.

* * *

In the present setting, the third round of post-war **Wage Increases,** now in progress, will accelerate the rise in prices; yet it is more a symptom than a primary cause of the inflation spiral. If capital formation and government expenditures were contracting, rather than expanding, efforts to offset wage advances with price increases would meet with effective consumer resistance and thus lead to curtailed production, unemployment and competitive price cutting. This would signal the onset of a business recession, a development not likely to eventuate this year.

* * *

While **Foreign Trade** figures for April, compared with the like month of 1947, show an increase of 8% in imports for consumption, and a dip of 13% in merchandise exports, wide variations are disclosed among individual items. Thus among our exports, there was an increase of 70% in wheat and 30% in the dollar value of farm implements; with a decline of 93% in corn, 68% in coal, 40% in rubber goods and cotton, and 32% in the dollar value of rayon goods. Among our imports, there was an increase of 90% in copper, and 20% in crude petroleum; with a decline of 55% in cocoa and 10% in crude rubber.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	April	187	192	187	174
Mining	April	152	150	143	133
Durable Goods, Mfr.	April	194	200	194	220
Non-Durable Goods, Mfr.	April	176	177	172	151
CARLOADINGS—t—Total	June 12	907	821	895	833
Manufactures & Miscellaneous	June 12	388	341	387	379
Mdse. L. C. L.	June 12	105	93	117	156
Grain	June 12	52	40	49	43
ELEC. POWER Output (Kw.H.)m	June 12	5,132	4,845	4,701	3,267
SOFT COAL, Prod. (st) m	June 12	13.3	13.0	13.0	10.8
Cumulative from Jan. 1	June 12	255	244	289	446
Stocks, End. Mo.	April	34.4	43.6	42.4	61.8
PETROLEUM—(bbls.) m					
Crude Oouput, Daily	June 12	5.5	5.5	5.7	4.1
Gasoline Stocks	June 12	106	102	93	86
Fuel Oil Stocks	June 12	57	56	48	94
Heating Oil Stocks	June 12	42	41	36	55
LUMBER, Prod. (bd. ft.) m	June 12	474	401	516	632
Stocks, End Mo. (bd. ft.) b	April	5.8	5.6	5.2	12.6
STEEL INGOT PROD. (st.) m	May	7.56	6.22	7.34	6.96
Cumulative from Jan. 1	May	35.8	28.2	35.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	June 17	127	174	94	94
Cumulative from Jan. 1	June 17	3,173	3,056	2,539	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	June 12	171	222	147	165
Wood Pulp Stocks, End Mo. (st)t	April	96.1	89.2	83.8	98.5
U. S. Newsprint Consumption (st)t	April	448	442	397	352
Cigarettes, Domestic Sales—b	April	32.0	29.2	27.5	17.1
Whiskey, Domestic Sales (tax gals.)m	April	3.6	3.6	9.8	8.7
Motor Vehicles, Factory Sales—t	April	438	492	423	352

PRESENT POSITION AND OUTLOOK

* * *

In times when primary inflationary forces are dominant, it is usually futile for any industry or company to oppose an upward surge in the **Wage-Price Spiral.** General Electric, which tried the experiment of reducing prices and freezing wage rates, has since had to reverse its policy, and it is believed that the steel industry will soon follow suit. Among a few industries, such as radio and cotton textiles, where output has more than caught up with demand, prices are still receding, however.

* * *

Expenditures on new **Construction** during May were 40% more than for the like month last year; hospital and institutional building were up 193%, educational building up 74%, private construction up 41%, and farm construction up 25%; but industrial building was off 19%. Non-farm new dwelling units started during May numbered 97,000 — 32% more than in May, 1947, compared with a five-months' gain of only 28%. Homes built in 1946 are being resold at prices up to 30% above first owner's cost. Costs of building new homes are up at least 10% from a year ago.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mils, Publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

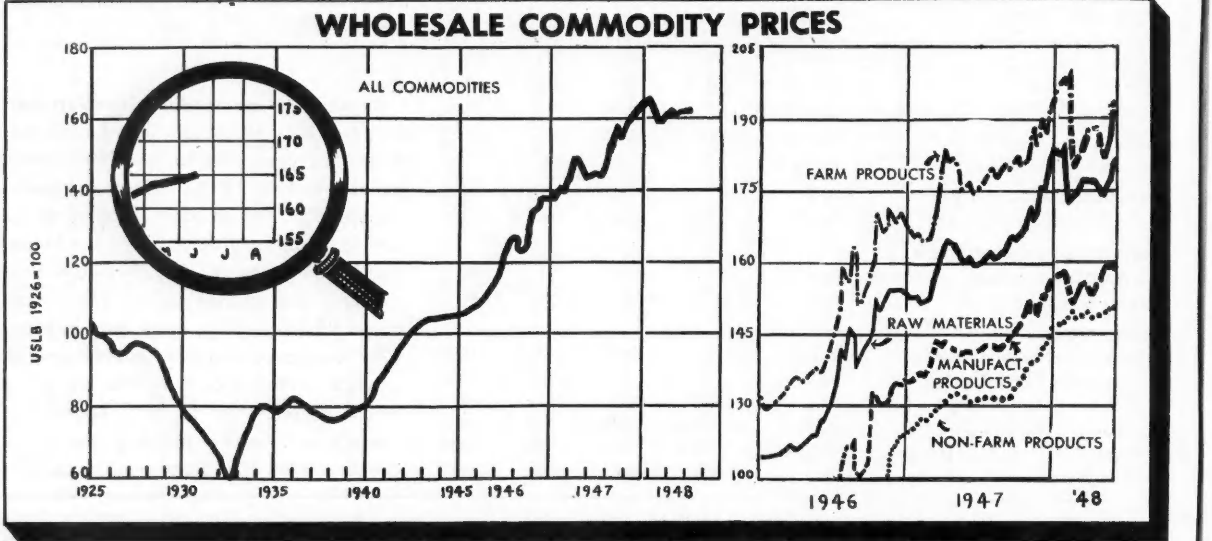
No. of Issues (1925 Close—100)	1948 Indexes High	Low	June 11	June 18
312 COMBINED AVERAGE	149.5	119.0	149.5A	149.4
4 Agricultural Implements	229.9	178.8	229.9B	228.5
11 Aircraft (1927 Cl.—100)	189.9	134.3	187.3	185.1
6 Air Lines (1934 Cl.—100)	516.3	430.3	492.1	473.1
6 Amusement	101.5	78.7	96.2	91.4
13 Automobile Accessories	221.7	171.1	221.7A	219.5
12 Automobiles	40.7	31.4	40.7A	40.3
3 Baking (1926 Cl.—100)	20.2	16.4	19.9	20.2A
3 Business Machines	294.7	224.7	294.7A	291.3
2 Bus Lines (1926 Cl.—100)	163.0	133.4	155.0	153.9
5 Chemicals	265.5	221.6	265.5B	263.7
2 Coal Mining	24.2	14.7	23.6	23.1
4 Communication	54.3	42.3	52.9	52.5
14 Construction	70.4	56.6	70.4B	70.0
7 Containers	340.7	287.1	335.0	333.0
9 Copper & Brass	116.5	92.0	115.7	116.2
2 Dairy Products	59.5	50.7	59.3	59.5A
5 Department Stores	70.3	53.9	69.5	69.1
6 Drugs & Toilet Articles	180.5	149.8	177.8	174.9
2 Finance Companies	264.7	199.4	262.3	264.7B
7 Food Brands	176.0	152.8	175.5	175.8
2 Food Stores	67.5	59.7	65.8	65.4
3 Furniture	87.4	70.9	87.4A	87.2
3 Gold Mining	758.1	694.2	711.2	687.1

(Nov. 14, 1936, Cl.—100)	High	Low	June 11	June 18
100 HIGH PRICED STOCKS	91.0	75.27	90.9	91.0B
100 LOW PRICED STOCKS	177.5	135.10	176.9	177.4
6 Investment Trusts	69.3	50.0	69.3B	68.8
3 Liquor (1927 Cl.—100)	799.6	637.7	777.4	762.6
9 Machinery	176.1	136.8	176.1B	173.3
3 Mail Order	121.5	89.8	121.0	119.5
3 Meat Packing	109.7	92.0	109.7A	108.3
13 Metals, non-Ferrous	188.3	138.0	188.3A	184.6
4 Paper	47.5	34.1	57.5Z	46.9
24 Petroleum	294.0	199.5	287.0	294.0Z
19 Public Utilities	120.3	97.8	119.0	120.3A
5 Radio (1927 Cl.—100)	27.6	17.6	25.8	27.6B
8 Railroad Equipment	66.5	52.9	66.5A	65.5
24 Railroads	28.2	20.5	27.5	28.2B
3 Realty	26.6	21.1	26.2	25.8
2 Shipbuilding	139.0	102.3	134.0	131.8
3 Soft Drinks	516.5	431.2	443.9	434.4
14 Steel & Iron	119.6	96.2	119.6A	119.0
3 Sugar	51.5	44.8	50.4	49.6
2 Sulphur	265.9	206.6	259.3	260.5
5 Textiles	168.9	118.9	168.9B	167.4
3 Tires & Rubber	32.8	27.5	32.6	32.5
6 Tobacco	69.3	62.4	67.6	67.0
2 Variety Stores	326.4	286.9	326.4A	325.5
17 Unclassified (1947 Cl.—100)	109.0	90.0	108.1	109.0B

New HIGH since: A—1947; B—1946; Z—All time HIGH.

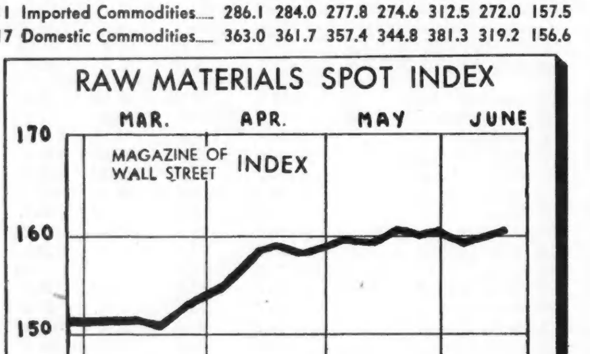
Trend of Commodities

Moderate advances took place in Commodity Indexes, spot and futures, during the past fortnight; though wheat and cotton were off a bit. Wheat and cotton are now a little lower than a year ago. The fact that wheat is selling close to its parity price tends to discourage short selling, despite predictions that supply may catch up with demand later in the year. Farm products, which paced the inflationary rise in prices during the war and the 2½ post-war years, are now trailing, not leading. Farm products prices have shown an average advance of only 8.5% during the past year; whereas non-farm products are up 13%. In the past, this has served as an advance signal that it is only a matter of months for a business boom to reach its crest. However, we look for no serious trouble this year. The Agriculture Department hazards the opinion that, if present crop prospects abroad materialize, we will ship about 20% less grain to Western Europe in fiscal 1949 than a year earlier. France has already indicated that she will not need all the wheat allocated to her. Indicative of waning European interest in North American bread grains is the recent break in Canadian rye, which sells in a free world market. Early this year, the July option sold above $4.50 a bushel; now it is down to $2.66. The trade believes that corn prices are likely to reach a higher level before mid-summer. An unusually heavy demand for feed grains will probably exceed supplies, at least up to around the end of July, when marketing of the new crops of oats and sorghum should tend to relieve the pinch. The new corn crop will not be harvested until October. ECA buying has helped to sustain cotton prices, despite lessening demand at home and from abroad.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

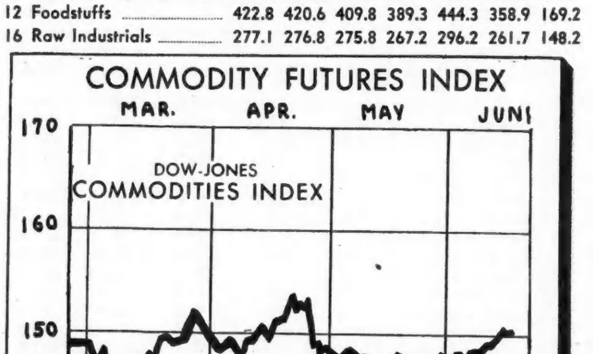
	Date June 21	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	330.6	329.0	323.7	315.3	352.6	299.8	156.9
11 Imported Commodities	286.1	284.0	277.8	274.6	312.5	272.0	157.5
17 Domestic Commodities	363.0	361.7	357.4	344.8	381.3	319.2	156.6
7 Domestic Agriculture	399.0	393.5	392.2	376.4	415.6	359.1	163.9
12 Foodstuffs	422.8	420.6	409.8	389.3	444.3	358.9	169.2
16 Raw Industrials	277.1	276.8	275.8	267.2	296.2	261.7	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.63	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	144.05	117.14	93.90	88.45	55.45	46.59	45.03	52.03

Implications of Our Rising Purchases Abroad

(*Continued from page* 337)

is expanding or which are needed for stockpiling: Canada(newsprint, lumber, woodpulp, non-ferrous metals), the Philippines (sugar, copra), certain Latin American countries such as Argentina and Uruguay (wool and hides), Venezuela (petroleum), and Chile and Peru (copper). Among the African countries earning more dollars, the most important were Nigeria and the Gold Coast (cocoa and metals), and the Belgian Congo (diamonds, non-ferrous metals, uranium ore).

The second group, consisting of Western European countries, earned dollars at the rate of about $300 million more than last year, largely by selling us more manufactured goods and processed foods and beverages. The remaining countries either earned dollars at about the same rate as last year, or less. Among the latter countries was China, where exports have been brought practically to a standstill because of inflation and civil war; Japan where the unsettled currency problem is holding back exports; and Indonesia, still plagued by political unrest.

In Canada and South America, the increased dollar earnings have unquestionably eased somewhat the pressure for dollars, and have made possible the maintenance of our exports to these countries at a surprisingly high level. This may be taken as proof that a better balanced exchange of goods means larger trade. The increased dollar earnings of African countries will eventually find their way to London, Paris, and Brussels, which in turn will spend them here.

Western Europe will, of course, never be able to earn enough dollars from her merchandise sales to pay for her huge purchases in this country. But European exporters could vastly improve their sales, had they a more accurate knowledge of American consumers' tastes and requirements. This is a conclusion brought out by a recent survey of the American market for British-made consumer goods.

It revealed a substantially greater demand for British goods than British exporters have been supplying and even greater potentials if sales, advertising and promotion methods are improved. It also pointed out a strange unconcern—in view of the Britain's need of dollars—about the design and quality of the goods sold in American markets as well as the undependability in delivering goods to meet seasonal buying.

At this stage of world recovery, there can hardly be a more salutary development than the expansion of American imports. We need imports. They keep our industries on their toes and at the same time contribute to our wealth and prosperity. One may well emphasize that instead of providing dollars as a loan or gift, the American taxpayer by accepting imports is at least getting something in exchange. In a healthy international economy, trade must move both ways; a better balanced trade means a larger trade for this simple reason: If one country keeps on accumulating better and bigger favorable trade balances, the other countries will sooner or later protect themselves by imposing corrective measures that will restrict trade in general.

For Profit and Income

(*Continued from page* 349)

that this company has good growth potentials. Earnings for the fiscal year ending July 31 probably will be close to $7 a share, against $5.99 for the prior year. Dividends at indicated rate of $2.50, inclusive of extras, should be subject to increase, as the financial position is strong. Around 40, the stock yields over 6.2% on actual payments within the current fiscal year. It looks like a pretty solid value to this column. The capitalization is $4,375,000 in long term debt and 753,813 shares of capital stock.

Outlook For Interest Rates

(*Continued from page* 331)

The temporizing measures so far taken raise the question whether anything effective in the way of credit and monetary controls can be expected. The answer is that nearby prospects at least are distinctly dim, all the more so as there are apparently no reliable means of bringing the inflationary boom to a halt without danger of a rout in the other direction. It is the latter fear primarily that seems to prevent the adoption of more stringent measures, though other important considerations also enter. Existence of a huge national debt plus the new spurt in Government spending materially affect the ability of the monetary authorities to carry on an effective monetary or credit policy. It favors continuation of a policy of relatively easy money.

Dubious Alterations

The Federal Reserve System, for instance, could reduce support levels for short term governments or sell long terms from its portfolio, but this would upset the market for Treasury issues and possibly interfere with Government financing. It could further increase reserve requirements, but what little remains of this anti-inflationary weapon holds little "punch." All classes of banks except Central Reserve City banks (in New York and Chicago) are already at maximum reserve requirements under the present law. Only the latter can be raised another 2% to the statutory maximum of 26% of demand deposits.

Any such future move can be little more effective than the latest one. It should not be forgotten that banks still hold some $65 billion in government securities which can be readily liquidated not only to meet any additional reserve requirements but to use the proceeds for the acquisition of risk assets to augment earnings. This fact alone points out the weakness of raising reserve requirements. Nor would raising the rediscount rate be much of a solution at this time.

The monetary authorities, in short, are in a quandary. It appears quite unlikely that we shall witness, in the foreseeable future, any sweeping measures, particularly since the fear of deflation (meaning business recession) is at least equal to, if not greater than, the concern about inflation. In the light of the international situation calling for substantial Government outlays for perhaps an extended period, and our huge national debt making a high level economy essential, arguments against any drastic action become rather compelling. It would seem that the only effective means, under the circumstances, would

(*Continued on page* 360)

Battle Of Containers—Metal vs. Glass

(*Continued from page* 347)

ment and chain stores, and some have diversified their operations extensively to avoid concentration in a single field.

Through research, the quality of glass produced has been much improved to lessen breakage handicaps, and better designing has also brought favorable results. In the food industry the elements of visibility and cleanliness are factors that lessen competition from tin. For all these reasons, some of the outstanding concerns in the industry have established enviable records for earnings and dividend stability, even in highly depressed periods. Hence the sounder companies are not likely to suffer long from the recent setbacks in the battle with tin containers.

American Can

Turning to a few individual concerns with high rank in the two branches of the container industry under discussion, we append a table to show various earnings statistics, dividends, price-earnings ratios and recent prices related to their shares. Topping our list is American Can Company, the dominant producer of metal containers and an important manufacturer of fibre containers and containers for frozen foods. This concern not long ago advanced its can prices by about 15%, so that granted a fair supply of steel sheets and tin, sales volume for 1948 may at least equal the record $338.1 million achieved last year. The price rise mentioned also should help to offset higher operating costs. Net earnings in the current year could be comparable to the $6.65 per share (after provision for $2.5 million inventory reserves) reported for 1947. Dividends have been paid without interruption since 1923, thus enhancing the investment status of the shares. The current quarterly rate of 75 cents per share may not be soon improved, though, because of heavy working capital requirements. The company spent $23.6 million last year for modernization and expansion of its plants. At a recent price of 89, the shares were about 4 points below their 1948 high, but in view of the rather modest yield obtainable (3.4%), they appear to have discounted medium term potentials rather liberally.

Continental Can Company enjoys a long record of growth since its incorporation in 1913, substantially aided by acquisition of other concerns. Volume of $268.3 million in 1947 was second largest in the industry, and wider profit margins caused net earnings to advance to $3.88 per share from $1.96 in 1946. The company has operated profitably for decades past, paying dividends steadily since 1923. Continental makes all its own canning machinery and has achieved substantial diversification by manufacturing paper cartons, shipping containers, caps, seals and plastics, all of which help to lend stability to volume. 59 plants in all are now operated in the United States and Canada. During 1947 the company spent about $14.5 million for new plants and modernization, planning further outlays for 1948-49.

In order to swell working capital, several large plants have been sold to an insurance company and leased back for a long term of years. Although Continental Can's financial position is very strong, its capital needs perhaps will hold dividends to 25 cents per share quarterly, along with a special year-end distribution as was the case last year. The shares have sound investment appeal, though the price of about 38 affords a yield of only 3.3%.

Owens-Illinois Glass

The largest domestic producer of bottles and other glass containers is Owens-Illinois Glass Company. About a third of volume normally is derived from production of various unrelated items, such as brushes, folding cartons, automatic machines for plastics and veneers. Owens-Illinois manufactures a complete line of glass tableware in addition to its containers. An affiliate, Owens-Corning Fiberglass Corporation, does an increasingly large business in glass fiber specialties of numerous description. Though record unit and dollar sales in 1947 pushed net earnings up slightly in 1947, reaching $4.60 per share, reports for 12 months ended March 31 indicate that despite a further gain in volume, profit margins have narrowed to produce net earnings of only $3.19 per share. Should this trend continue, the 75 cents per share

quarterly dividends paid in the first quarter might attain a degree of uncertainty later on, but since the company has arranged a bank credit of $25 million to increase working capital, and has paid dividends without a break since 1907, the medium term dividend outlook is by no means discouraging. In 1947, the shares sold as high as 80, so that their recent price of 63 lends a measure of speculative appeal.

Hazel-Atlas Glass ranks as the second largest producer of glass containers, about half of its output normally being sold to food processors. The company's financial position is exceptionally strong, its 1947 balance sheet showing current assets of $18 million compared with current liabilities of $1.8 million. An enviable record for unbroken dividends extends back to 1908. Net earnings per share have followed a rather narrow range of high—$2.68, low—$1.27 in the last five years. During the first 1948 quarter, a seasonal dip in sales, along with several plant shutdowns due to gas shortages and bad weather, caused a nominal deficit of 4 cents per share, but the company reports that April results were much better when a price rise became effective.

Dividend policies of this concern have generally been liberal and because of a very strong financial status, it is quite possible that the quarterly rate of 30 cents per share will not be endangered by poor earnings early in the current year. Hazel-Atlas Glass shares at 22 seem reasonably priced compared with their 1947 high of 35, considering the sound fundamentals of this concern and its medium term prospects.

Romance and Prospects of Standard Oil of New Jersey

(*Continued from page* 342)

in the company's history is related in a pamphlet published last year entitled "An Introduction to Standard Oil Company (New Jersey," which has provided the background for the foregoing.

Although, along with other representatives of the industry, Jersey Standard experienced substantial growth during the war, it has been compelled to intensify its expansion to meet the unexpectedly huge postwar demand for petroleum products. World-wide crude oil production was enlarged 44 per cent from 1941 to the end of 1945 and in that period refinery output rose 29 per cent. Facilities were expanded again in 1946 and 1947, but demand continues to exceed supplies and the company is in the midst of a vast extension of production and refining capacity.

Jersey Standard is a large organization. Assets have increased from $860.4 million at the 1911 dissolution, when it did about two-thirds of the nation's petroleum refining and marketing, to $2,996 million by the end of 1947. In that period, when assets more than tripled, the company's proportion of the domestic oil business shrank markedly, for last year the company's affiliates accounted for only 9 per cent of United States production, 14 per cent of refining volume and about 14 per cent of sales of all petroleum products.

Need for continued growth is evidenced by the fact that oil consumption increased 11 per cent last year over 1946 in this country and 13 per cent for the world at large. The gain over 1938 for the rest of the world was 55 per cent, while domestic consumption was 34 per cent higher than in 1941, the last prewar year. Jersey's affiliates accounted for 14 per cent of the world's production last year.

Expenditures for plant additions last year approximated $425.7 million. To finance this expense the company used earnings in excess of dividend disbursements together with depreciation funds of $143 million and new capital amounting to $100 million. Altogether expenditures for 1947 and 1948 are budgeted at about $1,000 million. Necessity for conserving cash dictated the company's recently announced policy of paying part of current dividends in stock, a step that will avoid placing a charge ahead of the common or dilution of the equity through sale of additional common stock, perhaps at an un-

reasonably lowprice.

As might be expected, the remarkable growth in sales, accelerated by a sharp advance in prices last year, contributed to a bulge in earnings. Total income set a new high at $2,386.7 million, an increase of 45 per cent over 1946. Net income came to $268.6 million, equal to $9.38 a share, compared with $177.6 million, or $6.50 a share in 1946. The average for the 1941-45 period was $4.80 a share. Net worth rose to $1,817.8 million, or $66.50 a share, from $1,655.3 million or $60.56 a share in 1946. The average for the five war years was $51.14 a share. Additional statistical data relating to the company are presented in the accompanying tabulation.

Gross production of crude oil last year by Jersey affiliates averaged 1,175,000 barrels daily, an increase of 8 per cent for the year. December was the best month of the year and it is assumed that output has continued to rise this year. Domestic production averaged 465,000 barrels a day, or approximately 67 per cent of domestic refinery runs averaging 703,000 barrels daily.

Exploration activities were intensified throughout the world. The outstanding result in 1947 along these lines, according to management, was the discovery by Imperial Oil Limited of the Leduc field in western Canada. The new field is regarded of major importance to Canada because the Dominion now imports more than 90 per cent of its oil. Jersey experts are confident the discovery opens entirely new producing regions, and this view has been strengthened by further progress in recent months.

Although crude prices had not been increased thus far this year (up to the time this was written), earnings of Jersey Standard and other oil enterprises still were on the increase. Stockholders at the annual meeting were officially informed that net profit for the first six months probably would approximate $7.50 a share. Nevertheless, the need for retention of earnings for expansion suggests that dividends may remain at $2 in cash and stock having an approximate market value of $2. This would compare with the $4 in cash paid in 1947 and $3 in 1946.

Stockholders recently authorized an increase in capitalization to 35 million shares, of which 27,333,742 shares had been outstanding at the beginning of the year. Management proposes to issue stock in exchange for shares of International Petroleum which may be offered to it by public stockholders of Imperial Oil, who soon are to have the privilege of purchasing Imperial's interest in International Petroleum. Additional Jersey shares also are to be issued as dividends later in the year and possibly again in 1949.

Recent published intimations of a stock split if the shares should sell above $100 are not regarded seriously. The stock was split four-for-one in 1920 and a 400 per cent stock dividend was declared in 1922, resulting in a five-for-one division. Thus there now are twenty shares for each share outstanding at the end of 1910. The stock sold this year at the highest price in history, 92⅞, compared with current price of about 89, and this fact may account for the recent increase in the short interest as of June 15 to 47,491 shares from 28,443 a month earlier. Yet it is noteworthy, that even around current historically high prices, the stock sells only about six times indicated 1948 earnings.

In view of the political disturbances in the Middle East and the prospect that this area may continue as an international trouble spot, a break-down of the source of Jersey's earnings in the year 1947 is of interest. It shows that the vast bulk of profits were derived from operations in the western hemisphere. Thus of total net profits of $268.6 million, $259.6 million came from operations in the latter area. Specifically, of 1947 profits, $122.9 million originated in the United States, $136.7 million in other parts of the western hemisphere (mostly Venezuela); $1.4 million in Britain; $2.6 million in Continental Europe and North Africa; and only $5 million in other foreign areas, that is the eastern hemisphere. Thus while Jersey's stake in the Middle East is large, any disturbance there would not be particularly significant from the standpoint of immediate earnings, though the impact of potential future earnings might well be more weighty.

Interest Rates

(*Continued from page* 357)

be a balanced budget and preferably some surplus for combatting the inflationary forces currently in motion.

What, then, is the outlook for interest rates? Over the nearer term, the question is difficult to answer. The uncertainties in the money market are greater than ever, revolving around the potential effects of rearmament and foreign aid, future money demand, the length of the postwar boom and importantly also the approaching elections and what will follow in the way of policy under a new administration.

For the moment, the upward trend of interest rates appears halted, and the Treasury's action next autumn is far from certain. Quite possibly, any further upping of short term rates may again be postponed and if so, it will leave high grade bonds in a relatively unattractive position. Most of them are still fairly high in price.

Should inflationary pressures again threaten to get out of hand, this would probably force an upward adjustment, though no more than a modest one. Such action

is virtually implied by the Treasury's avowed desire "to remain flexible—not to be frozen in its position," pointing to both, the prospect for action if forced by circumstances as well as the likelihood of relatively modest action. The latter is a foregone conclusion in view of the larger problems involved.

As indicated before ,the monetary authorities at present can hardly adopt drastic credit restrictive measures because such a policy would greatly interfere with the huge refunding operations of the Treasury and further increase the public debt service. Moreover, there is wide realization that the government bond market is the cornerstone of the general bond market and that a sharp increase in interest rates, accompanied as it would be by a corresponding decline in prices of high grade bonds, could have a pronounced effect on business activity. Thus it may be taken for granted that at the very least for the present year, the 2½% rate on long term governments will be maintained. And if this is so, the pattern for all other rates is more or less set. True, within this pattern there is room for another moderate increase in short term rates as discussed above, but such an increase, it now seems, is not assured. The prime question is whether the monetary authorities will maintain the "peg" on long term government bonds indefinitely.

It is less difficult to offer an opinion on the long term trend of interest rates. That trend despite possible interruptions is likely to remain moderately upwards. Interest rates and bond yields will naturally be responsive to changes in demand as business ebbs and flows, but basically they are bound to reflect the threat of a worldwide shortage of capital brought about by universally high tax rates which greatly inhibit savings. This long term uptrend should be more pronounced in rates on mortgages, high grade corporate bonds and short term paper, and less pronounced in long term governments, though indefinite maintenance of the 2½% rate on the latter is hardly a realistic expectation.

Both near term and long term, however, money is not going to be any cheaper! After a substantial decline in business loans during the first half of the year, a seasonal uptrend is indicated, and if demand exceeds the seasonal pattern, a stiffening in interest rates may well be witnessed. Crops will again be large and funds are required to finance their marketing. Armament orders are beginning to impose credit needs on the money market, and mounting consumer credit calls for additional funds, as do continued large capital needs for industrial expansion. All of which may or may not revive upward pressure on interest rates though the new dose of easy money provided by the Treasury action should be an offsetting influence. At least it's been furnished with that objective in mind.

As I See It!

(*Continued from page* 321)

nations to insure effective and sincere collaboration but we cannot do that by a policy of timidity and uncertain silence. The situation at Berlin is rapidly becoming intolerable, and it is having a shattering effect on every friend we have in Europe, as British and French hesitations indicate. Unless we want to repeat the mistake made at Munich ten years ago, there is need for immediate concerted action at the very top level of every Government concerned, but particularly in Washington which alone can and must give the lead in a really effective stand by the Western powers.

It is clear Russia will stop at nothing to gain her ends without war. Yet the ruthless steps taken to starve two and a half million Germans in an attempt to force us out of Berlin, is her most colossal bluff for she counts on the humane instincts of the western powers to give her a bloodless victory—to enable her to consolidate her uneasy hold on eastern Europe and Germany.

In the first place, Russia cannot afford to go through with the starvation threat without endangering her own position, in view of her desire to win important German support. Nor can she again use the outworn excuse that because the Nazis had brutally destroyed millions of Russian nationals she feels no compunctions about liquidating another two and a half million Germans.

The time has gone for this kind of reasoning and I believe that if we stand fast and supplement the food we can deliver with special concentrates of vitamins and other food values, Russia will be licked. It would be a fatal mistake for us to fall into her trap which would have serious repercussions not only in Europe but all over the world. To retreat at this time would make the Marshall Plan unworkable and surely bring about World War III.

To give in at this crisis would permit Russia to get away with a threat that would mean the ultimate subjugation of all the peoples on the earth. But there is no need for giving in. Why not answer threat with threat, and force with force? We have not yet resorted to economic sanctions, either individually or through the United Nations. We are still shipping goods to Russia. Why not isolate Russia economically from the rest of the world?

Trend In Consumer Credit

(*Continued from page* 339)

billion in installment loans arranged mainly for the purchase of goods, but not directly with the sellers. As for charge accounts, ordinarily payable in a single sum, these expanded only moderately during the last six months, at a rate of $46 million per month to a total of $3.3 billion. The latter credits carry less significance because of the broadly spread financial strength of the debtors.

How the consumer is apportioning the family budget currently to allow for the purchase by cash or credit of different kinds of goods provides clues to trends that may affect various industries in coming months. During the first quarter of 1948, about 12% of the average family income went for durables, whereof 3.8% for automobiles and parts, and 2.4% for furniture or household equipment. These percentages show little variation from a prewar year like 1941, but outlays for automobiles are likely to increase as their supply becomes larger. Now that deferred demand for other durables has been substantially met, no marked increase in their purchase appears probable in terms of percentage of family income, though dollar totals may expand.

At the beginning of May, consumers on the average were spending approximately 60.2% of their income for nondurable goods, with 11.1% allotted for clothing, 37.7% for food and the balance for other items. Clothing expenditures apparently absorb about the same proportion of disposable income as in 1941, but higher food prices and higher living standards have pushed the percentage spent for food upwards. Outlays for housing, due to rent controls, are at a current level of 8.4% and those for other services at 19.4%, compared with 12% and 22.6% respectively, in 1941. As matters now look, a smaller proportion of consumer income may go for clothing during coming months, for price resistance in this field has become quite expressive.

Since the outlook for increased installment financing is rather clearly indicated, lenders in this field are viewing their potentials with considerable optimism. Some 12,000 commercial banks throughout the country have undertaken to expand their activities in personal and installment loans, thus competition has become more severe among banks as well as for the regular finance companies.

Long established loan companies have the advantage of specialized experience and of having numerous branch offices scattered over the country well equipped to handle business of this kind. Some of these concerns are strongly entrenched with dealers and industrial concerns, from whom they are prepared to purchase sizable amounts of installment paper and receivables, often secured by liens on the goods, with full insurance protection and frequently carrying the seller's guarantee. Hence prospects are that the established concerns in this field will get their full share of the promising business in sight. To achieve diversification, a few of the more prominent concerns in recent years have bought manufacturing firms with varying results, and it has been a common practice to control insurance company subsidiaries that have tied in well with their normal activities.

In handling installment loans, the gross revenues of this or that concern can be rather closely estimated for about six months in advance, for operating profits will flow in as monthly payments on receivables are made. Hence the amount of receivables held at a given time furnishes strong clues as to expectancies for gross earnings. Under current conditions, profit margins will probably be narrowed by competition from the banks, but increasing volume should be a compensating factor. On balance it appears that net earnings in this field should trend substantially upward for quite some time.

The largest finance company is C.I.T. Fnancial Corporation, with total assets of $683.7 million at the end of 1947. The proportionate amount of receivables held at that time was $543.8 million, a gain of 150% over a year earlier. Net earnings for 1947 amounted to about $7.2 million, equal to $2.03 per share compared with $1.27 in 1946. The March 1948 quarter net earnings were reported as 86 cents per share, and as deferred income at the end of that period amounted to more than $40 million, the outlook for further earnings gains is good and the $2 per share dividend paid for the last two years is virtually assured of stability. With contingency reserves totaling over $13 million, C.I.T. has established adequate protection against any foreseeable loss, whether from defaults on installment loans or other causes such as deficits of its insurance subsidiaries.

In order to meets its large working capital needs, C.I.T. is a heavy borrower, though at low rates. At the beginning of 1948, current notes payable were about $315 million and notes due during 1950-52 aggregated $108 million. Since then the company has borrowed an additional $14 million from trust funds and Harvard University, besides selling 300,000 shares of 4% preferred stock to an insurance company. The terms and amounts of these large transactions attest to the sound character of the company's assets. C.I.T. shares at current price of 48 provide a rather modest yield of 4.2%, and a price-earnings ratio of 23.5 indicates that the company's bright outlook has been rather liberally discounted, but also points to anticipation of further earnings improvement.

Commercial Credit of Baltimore has been operating successfully in the installment loan field for some 36 years, and its reve-

nues are now swelled through control of fire and credit insurance concerns, eight manufacturing companies and some factoring subsidiaries. The company's diversified operations expanded sharply in 1947, producing a consolidated gross income of $61.3 million in contrast to $42 million in 1946. Net income after taxes and deduction of $1 million as a reserve against fluctuations in security values came to $7.99 million, equal to $3.85 per share compared with $2.15 a year earlier. In the four months ended April 30, 1948, net per share was reported as $2.28, indicating a further uptrend. During 1947, Commercial Credit Company acquired $1.48 billion receivables of various description, of which $379.9 million remained outstanding at the end of the year.

The credit status of this concern is exceptionally strong, with established bank lines of $324.9 million, of which $184.8 million were unused as of February 10, 1948. Term borrowings from insurance companies at low rates aggregate $85 million, besides which the company has consummated unsecured insurance company loans totalling $25 million at 3%, though these are subordinated to all liabilities of the borrower. $25 million 3.60% preferred stock (200,000 shares) is outstanding senior to about 1.84 million shares of $10 par common. Dividends of $2 per share were paid in 1947, not including 25 cents extra paid on January 2, 1948. Recently the quarterly dividend was raised to 65 cents per share and as this rate seems secure, the shares on this basis and at current price of around 51 show a yield of about 5%.

Declining Corporate Liquidity

(*Continued from page* 328)

resent an internal source of funds, which increases correspondingly as gross plant account rises. In addition, numerous companies are now making extra charges for accelerated depreciation or reserves for high-cost replacement of fixed assets.

In the food industries, cash has been needed not only for plant improvements but also for carrying larger inventories at higher prices. Borden Company's cash was down $10 million and debt up $20 million, and General Mills' cash down $28 million. Schenley Distillers cash and working capital were built up by its record earnings combined with long-term loans of $117 million.

Of the remaining companies in our tabulation, a number showed substantial declines in cash, including Eastman Kodak, American Woolen, Bond Stores, Goodrich, and Sterling Drug, accompanied in some cases by increases in debt. Other companies built up cash from the unused proceeds of loans, including Gulf Oil, Monsanto Chemical, and Union Carbide.

Two large merchandising organizations — May Department Stores and Montgomery Ward — have had heavy drains upon cash for carrying expanded inventories and receivables, and in addition the May Department Stores almost doubled their property account.

It must be granted that this survey indicates some deterioration in the liquidity of most of these companies, shown both by the decrease in cash and by the increase in debt, which reflects the financing of heavy plant expenditures combined with the absorption of funds by inventories and receivables. It is remarkable, nevertheless, that at the same time the companies were able to increase the net amount of their working capital so substantially — thanks to the high level of earnings, and to some offerings of new securities.

So long as business volume and earnings continue at the prevailing high level, as most signs suggest that they should for the balance of this year and perhaps much longer, there seems little likelihood that this growth in working capital will be checked. About the only companies which have suffered a material impairment in working capital since the war are those whose earnings, due to unusual circumstances, collapsed or were changed to deficits. Save in these exceptional cases, the ploughing back of good earnings into plant has strengthened the companies' position and likewise the investors' equity, by increasing the intrinsic value as well as book value per share.

There is, naturally, some limit beyond which further plant expansion would be unwise, as leading to excess capacity and to a vulnerable position when eventually some recession in business activity takes place. Although such danger may seem remote today, in the face of continued shortages of goods, large unfilled orders, firm prices, etc., it should not be ignored.

Already a warning signal against further plant expansion at present inflated costs has become visible, in that the shares of a number of companies are selling in the market at well below book values, which are based largely on prewar costs and thus are very conservative. There are serious and not unjustified doubts as to the advisability of investing cash in more new plants, when existing plants may be purchased, in effect, at heavy discounts from their book values. Some well-known and old-established companies are actually selling below their net current assets, indicating that the opinion of investors places no value whatever on their fixed assets.

Has Market Seen Top?

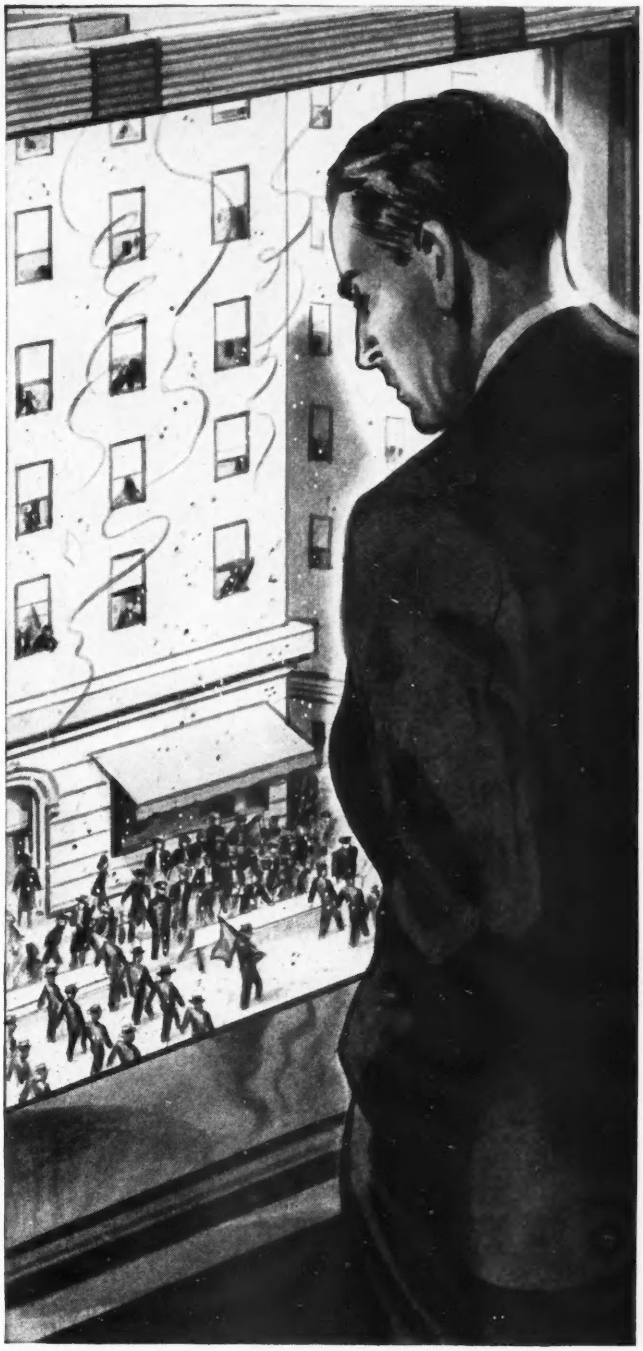
(*Continued from page* 323)

fear that there will be a bust before the thing can develop into anything like a flight out of money. Another might be doubt as to how much the Republicans may actually be able to change things at Washington if they take over, as seems nearly certain unless Truman withdraws and the Democrats dragoon Eisenhower into running for them. If the Republicans do what the conservatives preach in fiscal and credit policy, we will get an induced deflation. If they do not, they will carry on, probably somewhat more efficiently, pretty much the same policies heretofore followed.

Whatever the reasons, however, the fact that "bull-market confidence" is tepid and questioning right now is indisputable; and we do not believe it is prudent to ignore it. We suggest that you take profits on a portion of holdings, with the effect of averaging down the net cost of the portion retained; and that enough such selling be done to raise reserves to 50% against the 25% heretofore recommended in typical accounts.

—Monday, June 28.

MEMO TO PRESIDENTS WHO WATCHED THE BAND GO BY!



HERE'S ONE parade that isn't "all over but the shouting" after the band has passed. It's the Payroll Savings Plan for the regular purchase of U. S. Security Bonds by employees.

Though the formal spring campaign to sell Bonds is over, any company can still move forward with the parade. Right now thousands of companies are putting *additional push* behind their Payroll Savings Plans. Managements of many companies that have not yet participated are *now installing* the Plan.

It's a "look-ahead" plan, that benefits employee, company, and nation. Every \$3 invested in Bonds pay \$4 at maturity. Personnel records in the plants with active P. S. P. programs show improved employee attitudes—evidenced by less absenteeism and fewer accidents—as the individual's sense of security grows with Bond purchases. And every Security Bond dollar built up in the Treasury retires a dollar of the national debt that is potentially inflationary. It means less bidding-up of prices. Moreover, Bond buyers are better citizens because they have a tangible stake in the nation's future.

It's just as easy to take action now as when the campaign was at its height. Just call your Treasury Department's State Director, Savings Bonds Division, and ask for the material that helps to get a Payroll Plan started or to keep it rolling.

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